



FINAL REPORT - MARCH 2020

San Francisco Housing Affordability Strategies



San Francisco
Planning

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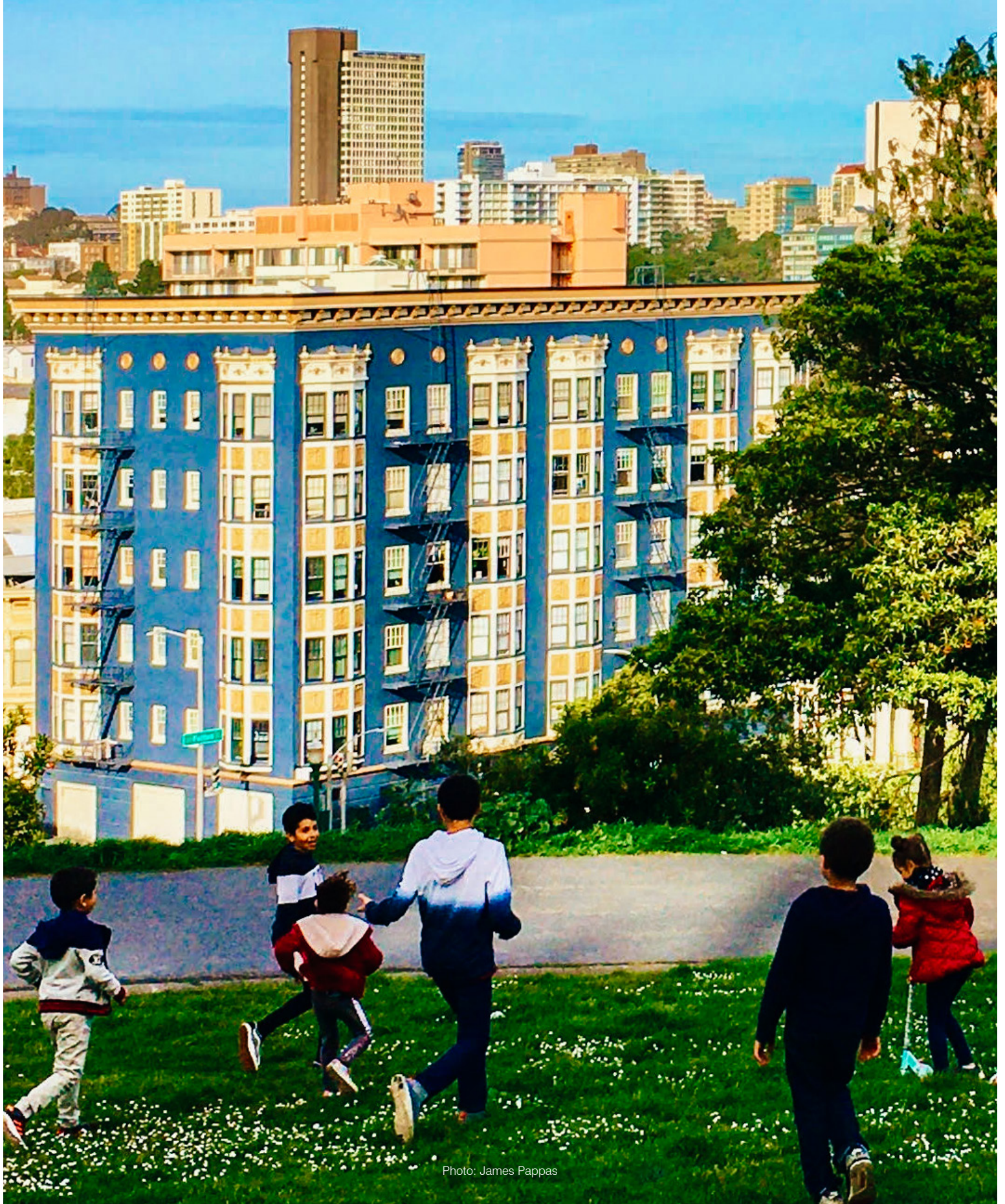


Photo: James Pappas

Executive Summary

The Housing Affordability Strategies (HAS) analyze how the City of San Francisco can improve housing affordability over the next 30 years, particularly for low- and moderate-income households. The HAS analyzed development feasibility, City policies, and public investments needed to achieve the City's housing targets created through both Mayoral action and the will of the voters: build 5,000 new housing units per year, at least one third of which should be permanently affordable at low and moderate incomes. In addition, the HAS analyzed programs to preserve affordable housing and to protect and stabilize residents. The purpose of the HAS is to help residents, City staff, and policy makers understand how different policies and funding strategies work together to address affordability and foster the diversity of our city. The analysis and outreach for the HAS will inform the 2022 Housing Element update.

Led by the San Francisco Planning Department (Planning), the HAS also incorporates input from other City agencies, including the Mayor's Office of Housing and Community Development (MOHCD), San Francisco Office of Housing Delivery, and the Office of Economic and Workforce Development (OEWD), and was informed by feedback from the community, advocates, researchers, and policy experts.

Key Challenges

- **Housing prices and rents have soared** and are increasingly out of reach for many residents, except for higher-income households.
- **Populations of people with low- and moderate-incomes, people of color, and families with children** are declining as housing costs increase.
- **People experiencing homelessness are increasing** in both the city and region.
- **Housing preservation and tenant protection** policies are strong but not sufficient.
- **Demand for housing near jobs, services, and transit is increasing** while supply is lacking in those locations.
- **Housing construction has not kept up** with job and population growth in the region.
- **Lack of regional investment in affordable housing** has aggravated affordability in San Francisco

Strategies

The HAS report focuses on the following question: What would it take to achieve the City's targets of 5,000 units per year with at least 1/3 affordable and increased community stability over the next 30 years? Four overarching strategies summarize key findings and represent a comprehensive approach to improving housing affordability:

1. Increase housing development potential with a focus on equitable development

The HAS analyzed three land use concepts that could lead to development of 150,000 housing units with at least one third permanently affordable by 2050. Each concept has different implications for equity and accessibility. The City could pursue one of these concepts alone or combine all three to expand housing choices. An equitable approach will require planning with communities, particularly communities of color and low income communities along with a focus on desegregation and access to opportunity.

- **East Side:** Expand housing capacity around Downtown and in light industrial areas.
- **Transit Corridors:** Expand housing capacity along transit corridors on the west, south, and north sides of the city.
- **Residential Districts:** Relax density restrictions in residential districts without changing height limits.

Each of the concepts for housing development will require investment in infrastructure (transit, utilities, schools, parks, cultural resources) in targeted areas.

2. Streamline approvals and permitting and reduce construction costs

- Simplify and shorten development approvals and permitting to increase certainty and lower risk.
- Facilitate the use of new construction materials (i.e. Cross-laminated-timber) and new technology (i.e. modular housing) to lower costs.
- Grow the pool of skilled labor by expanding construction apprenticeship programs and temporary housing for construction workers.

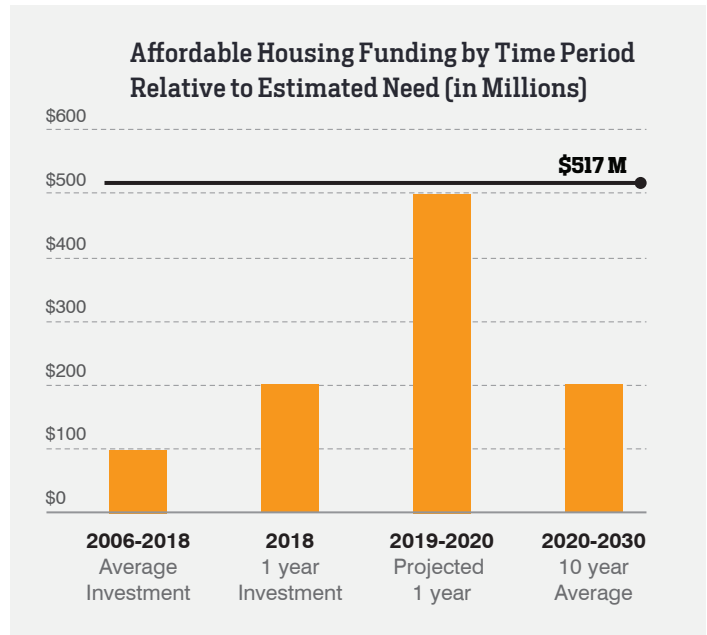
3. Expand and sustain funding to produce and preserve affordable housing

Annual production and preservation targets for market-rate and affordable housing are shown in the table below by estimated public and private investment.

Investment Type / Housing Type	Units
Private investment	
New market-rate units	3,330
New Inclusionary affordable units	640
City investment (includes OCII/ Redevelopment funding)	
New units in 100% Affordable buildings	1,030
Existing units become permanently affordable	400
Existing permanently affordable units rehabilitated	700

- The City would need an average of \$517 million (in 2020 dollars) per year to produce 1,000 city-funded affordable units and preserve 1,100 affordable units. The City is projected to nearly meet that funding need in FY19/20 but has fallen short in the past, and will need to expand funding in the future to meet the target.
- Potential future funding sources to bridge the gap between annual need of \$517 million and projected \$200 million could come from various sources: Future housing bonds; Gross Receipts tax (pending); Regional funding sources. Specific funding proposals will need to be developed by policy makers through a community process.

- Maximizing use of public and nonprofit-owned land for affordable housing could help lower costs.



4. Protect vulnerable residents and stabilize and preserve existing affordable housing

- Expand tenant services including legal services, counseling, and public education.
- Expand rental assistance programs.
- Expand housing services and outreach to the Black community and other historically discriminated groups to support repatriation and increased opportunity.
- Focus housing investments to implement Cultural Districts and preserve and rehabilitate housing serving vulnerable residents, for example SROs.

San Francisco can also help to address housing production, affordable funding, and tenant protection and stabilization through coordination with other cities and regional, state, and federal governments.

Policy issues related to the strategies above are further explored in four sections of this report: (1) Housing Development Feasibility and Costs, (2) Regulation of Housing Development, (3) Affordable Housing Funding, Production, and Preservation, and (4) Tenant Protection, Housing Stabilization, and Homelessness Services.



Introduction

Photo: MOHCD



Photo : Bruce Damonte

The Housing Affordability Strategies (HAS) analyze how San Francisco can improve housing affordability, particularly for low- and moderate-income households

The Housing Affordability Strategies (HAS) analyze how San Francisco can improve housing affordability, particularly for low- and moderate-income households,¹ by looking at development feasibility, City policies, and public investments. The HAS is meant to help residents, City staff, and policy makers understand how different policies work together to meet housing targets to improve affordability. Analysis and public engagement for the HAS will inform the 2022 Housing Element.

The HAS is a San Francisco Planning Department (Planning) project in coordination with a consultant team with expertise in affordable housing policy, land use planning, housing market and financial feasibility analysis, econometric policy analysis, and community outreach and engagement. In addition, Planning and consultants worked with City agencies, particularly the Mayor's Office of Housing and Community Development (MOHCD), which provides most local funding for affordable housing development. The analysis was also informed by feedback from the community, advocates, researchers, and policy experts.

Key Challenges

Perhaps no issue facing San Francisco today is more pressing than rising housing costs and lack of housing affordable at low- and moderate-incomes. Housing affordability challenges take many forms in the city and region including:

- **Housing prices and rents have soared** and are increasingly out of reach for many residents, except for higher-income households.
- **Populations of people with low- and moderate-incomes, people of color, and families with children** are declining as housing costs increase.
- **People experiencing homelessness are increasing** in both the city and region.
- **Housing preservation and tenant protection** policies are strong but not sufficient.
- **Demand for housing near jobs, services, and transit is increasing** while supply is lacking in those locations.
- **Housing construction has not kept up** with job and population growth in the region.
- **Lack of regional investment in affordable housing has aggravated** affordability in San Francisco.

These challenges are shaped by major national policies. Unlike other countries, housing is not recognized as a right in the United States. In addition, federal and state government funding is not sufficient to provide quality, affordable housing to all regardless of income.² Furthermore, federal funding has declined for decades, as housing needs have increased.³

Key Questions

Working with fellow City agencies and the consultant team, and by listening to feedback from the public and a cross-section of housing policy advocates, Planning developed key questions to guide the analysis of the HAS report:

- What would it take to achieve 5,000 units with at least one third affordable per year and increased community stability over the next 30 years?
- How much does the City invest in affordable housing production and preservation for low- and moderate-income people and how can the City do more?
- Where have different types of housing been built in the past and what kind of housing could be added in the future?
- What are the policy and investment choices that can support new housing capacity?
- How can the City simplify the development approval process to support community goals and increase affordability?
- How can we better protect residents at risk of displacement and stabilize low- and moderate-income households in housing that they can afford?

Report Structure

Introduction. This section covers the purpose, structure, and outreach process for the HAS. It also includes a historic context of housing and racial and social equity conditions as well as the key assumptions that ground the policy analysis.

Housing affordability and development concepts. This section describes three different ways the City can add new housing and preserve and produce affordable housing.

Key policy issues. This section provides an analysis of key policies and investments to support the housing affordability and development concepts.

1. Housing Development Feasibility and Costs
2. Regulation of Housing Development
3. Affordable Housing Funding, Production, and Preservation
4. Tenant Protections, Housing Stabilization, and Homeless Services

Conclusion and community input. This section provides a synthesis of the analysis and preliminary responses from housing policy leaders and community focus groups.

Community and Stakeholder Engagement Process

Planning solicited feedback from the public, advocates, and housing policy experts to help inform the policy analysis that is the focus of the HAS (details on the input and participants can be found on the web page). Feedback was collected through the following venues:

- **Community Forums and Focus Groups.** December 2018 through February 2019, Planning partnered with the MOHCD and the Office of Economic and Workforce Development (OEWD) to hold 10 community forums in neighborhoods around the city to hear feedback on housing and community development needs. Planning facilitated two discussion groups on long-term housing planning as part of each forum, collected and organized the feedback in a summary document, and incorporated feedback into the HAS. In early 2020, a consultant team gathered input on key findings from diverse communities through focus groups. A summary is included in this report.
- **Technical Expert Group.** Planning recruited academics and researchers working on housing policy from UC Berkeley and other academic institutions and research organizations. Planning convened a meeting of this group and engaged with academics and researchers directly on housing policy ideas and methodologies to analyze housing policies.
- **Housing Policy Group.** Planning worked with other City agencies and community partners to reach out to organizations in San Francisco to participate in policy focus groups to provide feedback on housing affordability issues. Participating organizations include community-based nonprofit groups, tenants' organizations, property owners, regional nonprofits, lenders, foundations, contractors, and for-profit and nonprofit housing developers. In Winter 2019, consultants conducted a series of interviews with a cross-section of these organizations representing diverse perspectives. These interviews helped to inform initial policy considerations for the HAS. In Summer 2019, Planning and consultants organized focus group discussions with interested organizations to discuss major policy issues and potential policy approaches. In January 2020, Planning had three sessions to discuss preliminary findings.

San Francisco Housing Context

San Francisco's housing landscape has been changing since the Ohlone people first settled the peninsula and has continued through the city's many eras: the Spanish-Mexican mission and presidio that began the colonization of the city, the Gold Rush that sparked massive population growth, the 1906 Earthquake and fire that destroyed much of the city and required rapid rebuilding, the introduction of the streetcar and automobile that extended urban growth, the era of suburbanization around the Bay and decline in the city's population in the middle of the 20th Century, 1950s and 1960s urban renewal that demolished thousands of homes in Black and working class neighborhoods, renewed population growth since the 1980s, and recent waves of professional and high-income job growth since the 1990s have all transformed the city.

In 2018, San Francisco had 400,730 homes and 883,305⁴ residents and in January 2019, 8,011 people were experiencing homelessness.⁵

The city is majority renter households (65%) and a majority of renters live in rent-controlled (60%), multifamily buildings while a majority of homeowners live in single family homes.⁶

Permanently affordable housing represents 8.5% of all homes (33,000 units), mostly located on the city's east side.⁷ For context as of 2015, there

were about 105,000 low-income renter households (earning less than 80% of Area Median Income or AMI) and about 34,000 moderate-income renter households (earning between 80 and 120% of AMI).⁸

The city's housing production was low for decades up until 2000; after 2000, production in the city increased, but declined in the region.

- From 1960 to 1990 census data shows that San Francisco added fewer than 600 net new units per year while the Bay Area as a whole added nearly 37,000 units per year.
- From 1990 to 1999, San Francisco's housing production averaged 963 new homes per year, from 2000 to 2009 production averaged 2,302 homes per year, and from 2010 to 2019 it averaged 2,590 homes per year.⁹
- Regional housing production from 1990 to 2017 was less than 20,000 per year according to census data, a little more than half of what it had been in prior decades.
- From 1990 to 1999, affordable housing production in San Francisco averaged 334 homes (35% of the total) per year, from 2000 to 2009 average production doubled to 623 homes per year, and from 2010 to 2019 it averaged 692 homes per year.¹⁰
- Affordable and market rate production tend to rise and fall together, in part because market rate housing funds affordable and in part because both are tied to economic cycles- in the case of affordable because of higher city revenue/ funding.

FIGURE 1.
San Francisco Housing Production, 1990 - 2019

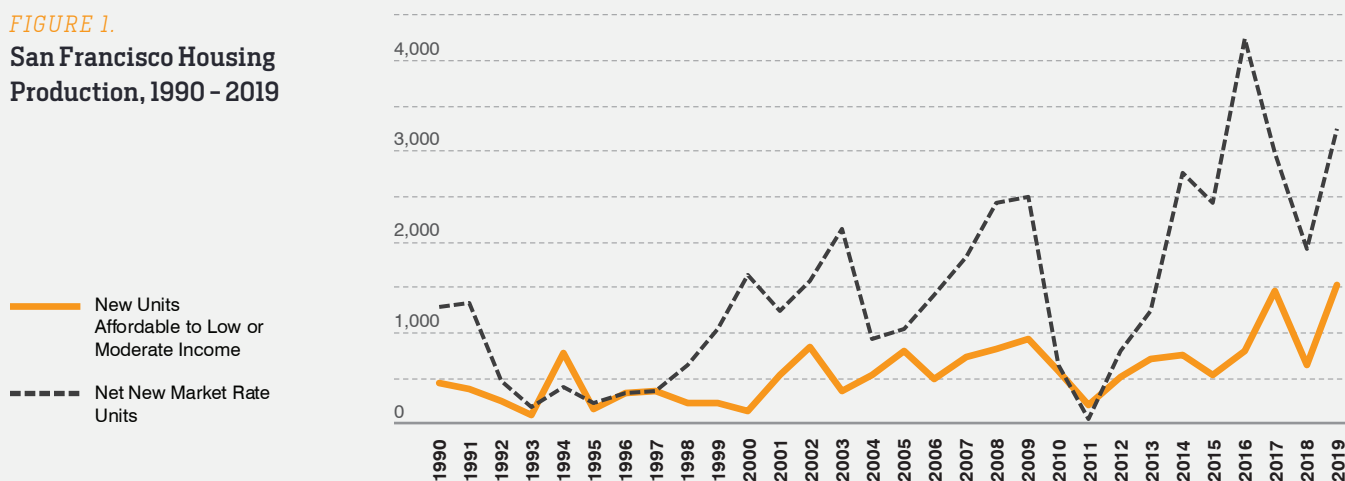
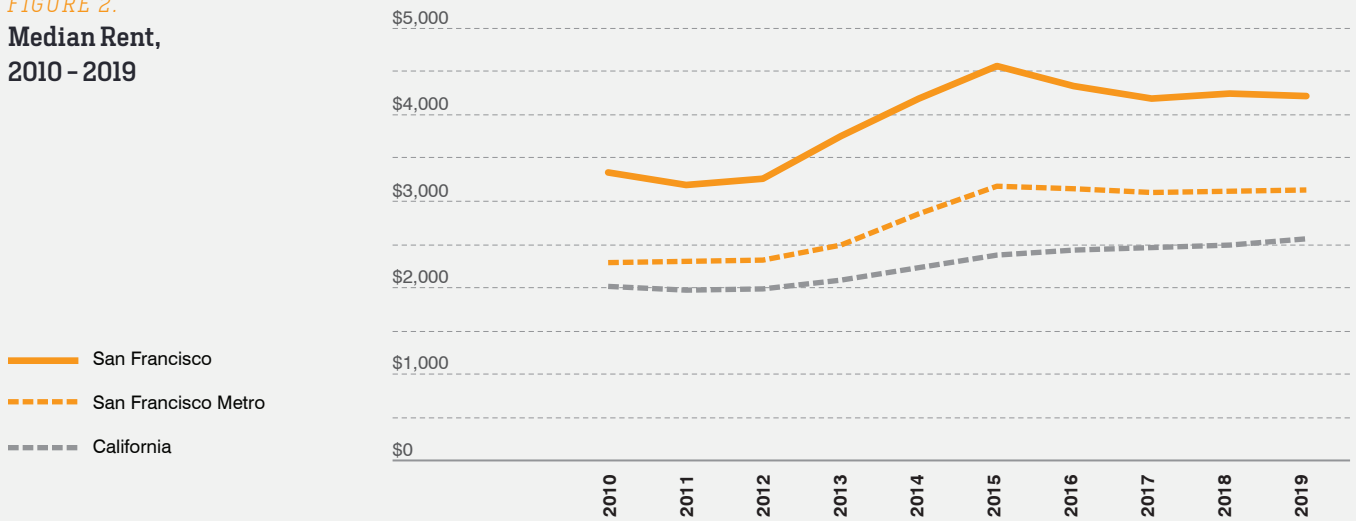
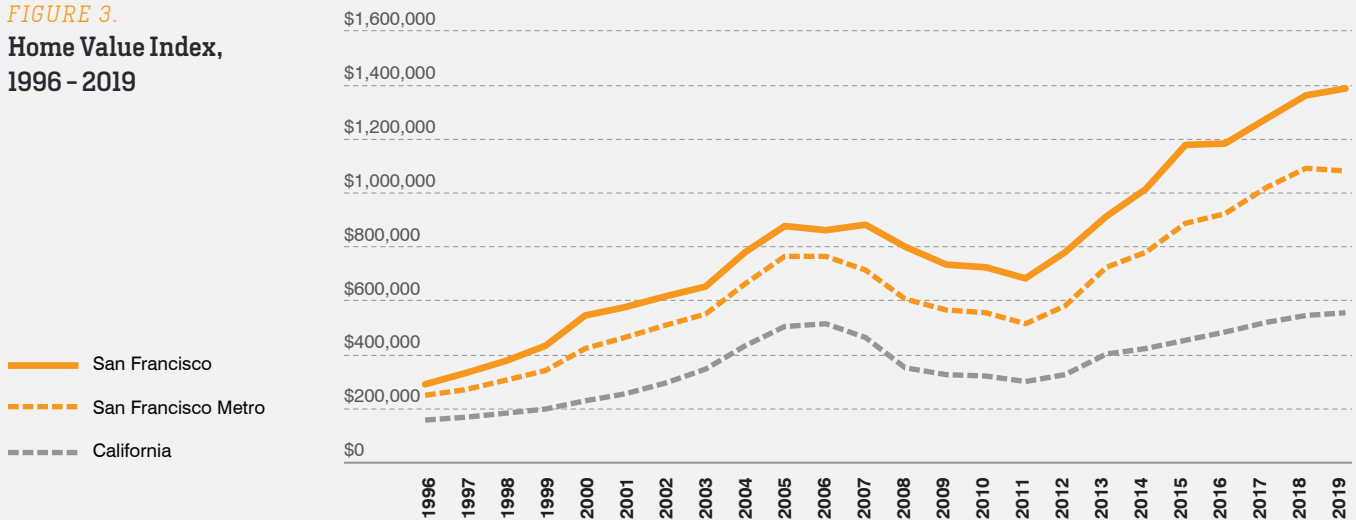


FIGURE 2.
Median Rent,
2010 - 2019



Source: Zillow

FIGURE 3.
Home Value Index,
1996 - 2019



Source: Zillow

Median rents and home prices have soared since the economic recovery that began in 2011 and are affordable only to higher income people.

Though median rents have stabilized and dropped since 2015, a household would need to earn about \$169,000 per year to afford the median rent in 2019. Home prices have nearly doubled since 2010 and more than quadrupled since the 1990s. A homebuyer would need to earn over \$307,000 per year to afford a home with a median price of \$1,387,278.



Photo: MOHCD

Racial and Social Equity Context

Sustaining San Francisco's racial, social, and economic diversity depends on the affordability and stability of housing. Growth of high wage industries, such as technology and professional services, has increased the number of high-income people in San Francisco and the region. Meanwhile, low- and moderate-income people in the city have dropped in number. These economic trends combined with historic discrimination and inequity impact communities of color. In the time span of 25 years, the proportion of the Black population in San Francisco was reduced by half, a far more rapid decline than the rest of the Bay Area.¹¹ Low-income households experienced the highest percentage of out-migration (4%) of any other income category between 2006 and 2015.¹²

Racial, Social, and Income Inequity and Housing

The following key findings illustrate the city's history of racial and social inequity as it relates to housing.

Growth in higher income households in San Francisco far outpaced housing growth for decades, putting increasing pressure on housing prices and rents.

- From 1990 to 2015, San Francisco added over 80,000 households with incomes above 120% of AMI but added just 31,019 new market-rate homes.¹³
- Higher income households have occupied a growing share of the city's rental and ownership housing in all housing types including a growing portion of the city's rent-controlled housing.¹⁴

The number of low- and moderate-income households in San Francisco has been dropping.

- From 1990 to 2015 the number of low-income and moderate-income households in the city dropped by 29,236.¹⁵
- Lower income renters face higher incidence of eviction and housing instability and fewer housing options than higher income households.¹⁶

Lower income households face a range of housing challenges.

- Low-income renters make up the vast majority (82%) of the estimated 82,000 cost-burdened renters (paying more than 30% of income in rent).¹⁷
- About half of cost-burdened renters (over 39,000) are severely burdened (paying more than 50% of income for rent).¹⁸
- 96% of severely burdened renters are low-income with the majority extremely low-income (earning less than 30% of AMI).¹⁹
- There are more than 33,000 cost-burdened owners spread among all income groups.²⁰
- Overcrowding mostly affects low-income households.²¹

Black, Latino, and Asian/Pacific Islander communities face greater housing challenges linked to income inequality and discrimination.²²

- Approximately 10% of the city's extremely low-income households are Black, while in 2015 Black people only comprised 5% of residents.²³
- Residents of color are far more likely to be low- or moderate-income than white residents.²⁴ Segregated white neighborhoods have more than double the incomes of segregated Black and Latino neighborhoods.²⁵
- Residents of color have higher cost burdens and more overcrowding.²⁶
- Black and Latino communities have a higher rate of renting.²⁷

- Residents of color face greater likelihood of eviction threats and housing instability.²⁸

Historic and Current Inequity in Housing Policy and Planning²⁹

Housing policy and land use planning have historically worsened racial and social inequity by excluding people of color from owning or renting in high opportunity areas, lending discrimination, prioritizing federal housing subsidies for higher income homeowners, and targeting communities of color and low-income neighborhoods for urban renewal. These policies directly contributed to lower wealth, health, and educational outcomes for people of color today. City agencies share responsibility to address this history with state and federal governments and private organizations. Discriminatory housing policies include:

- **Racial covenants** in property deeds restricted sales to people of color and religious minorities. Court rulings made these covenants illegal beginning in the late 1960s but covenants limited housing ownership for much of the 20th Century, part of a pattern of residential discrimination.
- **Redlining** was a federally sponsored and locally enforced and implemented practice that denied government-backed loans in neighborhoods and developments that were racially mixed or primarily people of color. Red lines on maps issued by government agencies excluded communities of color from loan programs that enabled home ownership for millions of white Americans, limiting homeownership and home improvement for people of color until the late 20th Century.
- **Renter and homebuyer discrimination** against people of color has been a challenge for much of the history of the United States and has continued through the recent mortgage crisis to today. Discrimination includes refusing to rent, sell, or even show property³⁰, directing people of color to certain neighborhoods, or targeting higher cost loans and financing to people of color.
- **Urban renewal** programs allowed cities to target "blighted" areas for redevelopment but in practice urban renewal usually targeted neighborhoods housing people of color and lower income renters for demolition, displacing thousands and damaging communities. Urban renewal's biggest

impact in San Francisco was in the Western Addition and South of Market.

- **Exclusionary zoning** uses land use rules to keep low- and moderate-income people, who are more likely to be people of color, out of higher income areas. Exclusionary zoning includes bans on multifamily housing or requirements for large lots or large yards for single-family homes. In San Francisco a majority of residential land is zoned for single-family or two-family homes, banning multifamily housing where low- and moderate-income people are more likely to live.
- **Federal housing programs mostly benefit higher income homeowners** including the mortgage interest and state and local tax deductions which yield the biggest benefits to owners of more expensive homes with higher mortgages and property taxes. These tax deductions cost the federal government far more than what is spent on housing programs for low-income people including housing choice vouchers and low-income housing tax credits.³¹

Addressing Historical Inequities

The City of San Francisco established the Office of Racial Equity in July 2019 to address racial inequities across the city and advance equitable outcomes for all our communities. Planning, along with other City agencies, is developing the Department's Racial and Social Equity Plan to address historic inequities and advance equity in community planning, policy development, and resource allocation.

The HAS report is an effort to address historical inequities by outlining concepts and policies for the city as a whole to substantially increase housing affordability and stability for low- and moderate-income households. The HAS also looks at policies to ensure that citywide efforts benefit people who have been harmed by past housing policies and programs, particularly the Black population. A comprehensive citywide framework can offer opportunities to keep our disadvantaged populations in place, house our homeless population, preserve and expand our existing affordable homes and produce new affordable homes for low- and moderate-income people and people of color. Together, these strategies can be scaled to reach our targets and reverse current inequity challenges.

Racial and Social Equity Indicators for Improvement

The City could measure its progress towards stability, increased opportunity, and access to affordable housing for vulnerable communities through key indicators. The indicators below have been adapted from Planning's **2019 Community Stabilization Report**:

San Francisco's vulnerable populations are gaining in stability when the following occurs:

- The Black population is increased.
- The populations of other racial groups that have been decreasing over time are increased (Native American/American Indian, Filipino, Samoan, and Vietnamese).
- Resources are maintained or increased to support housing needs of seniors, people living with disabilities, low-income households, people experiencing homelessness, youth, immigrants, LGBTQ+, refugees, linguistically isolated households, justice-involved individuals, and veterans.
- Income, health, and educational inequality is reduced between racial groups.
- Families with children, especially low- and moderate-income families, have housing choices throughout the city.

Past, present, and future San Francisco residents can find affordable housing opportunities when the following occurs:

- The proportion of low- and moderate-income households that are rent-burdened is decreased without loss of low- and moderate-income households.
- The number and types of evictions, including illegal evictions and buyouts is decreased.
- Income diversity within areas that are predominantly higher income is increased.
- The number of affordable housing units for low- and moderate-income residents is increased.

Assumptions for Housing Targets

The HAS uses key housing targets established by the elected leaders and residents of San Francisco and analyzes how different policies can help us meet these targets. These targets may shift based on future forecasts of regional population and job growth, assessment of critical needs, as well as the priorities established by residents and elected officials. The analysis contained in the HAS is designed to determine the policies and potential resources needed to meet current and future targets. These key housing targets include:

Produce an average of 5,000 new homes a year, adding 150,000 additional homes by 2050 . Mayor London Breed, along with former Mayor Edwin Lee, set a target to produce at least 5,000 homes per year. The city produced 5,000 units in a year just once (in 2016) in the last 40 years, though it came close in 2019 when 4,800 units were built. Housing production is important because new homes help meet the needs of a growing workforce and population as well as the needs of current residents looking for a new home due to changing circumstances such as a growing family, desire to start their own household, or desire to downsize. The 5,000 homes target is 35% higher than actual annual average production from 2014 to 2018 and 87% above the average from 2009 to 2018.

Produce an annual average of at least 1,667 homes affordable at very low-, low-, and moderate-incomes, or 50,000 affordable homes by 2050 (one third of new homes). Setting a target of one third of new homes affordable at very low-, low-, and moderate-incomes aligns with the goal for areas where substantial new housing is added in Proposition K, passed by voters in 2014. This number would not meet the full 2,042 affordable units per year target set for San Francisco in the 2015-2022 Regional Housing Needs Allocation (RHNA). Furthermore, San Francisco's overall RHNA target is likely to increase in the next RHNA cycle as discussed in the upcoming capital plan. However, when additional targets for acquisition and preservation of existing homes as permanently affordable housing (described more below) and

addition of Accessory Dwelling Units (ADUs) are considered, as required by state law, the RHNA targets could be met. It is also important to note that the target of 1,667 new affordable homes per year is 98% more than the city produced on average annually from 2014 to 2018 and 132% more than the annual average from 2009 to 2018 and will require significantly more public investment, incentives, cost reductions, and/or other strategies to achieve. Producing affordable homes at this scale would grow our permanently affordable stock from about 33,000 homes to over 83,000, more than doubling the affordable percentage from 8.5% to 18%.

Preserve 600-700 units of existing subsidized affordable housing per year. The City's portfolio of publicly funded affordable housing includes many aging properties in need of rehabilitation. In addition, some older properties funded by federal programs such as loans from the U.S. Department of Housing and Urban Development (HUD) may be at-risk of converting to market-rate housing when affordability requirements expire. Without intervention, there is the potential for loss of affordable housing and the displacement of residents. In the case of remaining large public housing sites, Potrero and Sunnydale, the City is rebuilding existing public housing without displacing current residents through the HOPE SF program.

Preserve 400 apartments serving low- and moderate-income renters annually through acquisition of rent-controlled housing. The City's Small Sites program has funded nonprofit acquisition of hundreds of rent-controlled apartments occupied by low- and moderate-income tenants. Each year about 400 rent-controlled apartments are removed from protected status through the Ellis Act and owner move-in evictions. After an eviction, these units will no longer be affordable to low- and moderate-income renters. Acquisition can help preserve more housing as permanently affordable and stabilizes residents.

Concepts for Future Housing Development and Affordability

Photo: Bruce Damonte



The three concepts presented in this section offer different ways the City could meet the housing production and affordability targets outlined above. Each concept meets the goal of 150,000 new homes, including 50,000 affordable homes, by 2050, but differ in land use pattern and the scale of potential buildings, neighborhood feel and impacts, amount of public investment in affordable housing, and required infrastructure to serve current and future residents. Future policy could combine elements from each of these concepts. The three concepts are:

CONCEPT 1 East Side Focus: New homes would be added in taller, multifamily buildings near Downtown and in light industrial areas, intensifying recent growth patterns in the city’s eastern neighborhoods.

CONCEPT 2 Transit Corridors Focus: New homes would be added in mid-rise multifamily buildings along transit lines that will receive major transit improvements.

CONCEPT 3 Residential District Focus: New homes would be added throughout the city’s residential neighborhoods and neighborhood commercial corridors without major changes to heights.

Potential changes in land use controls were analyzed using an econometric model to estimate the amount of housing likely to be produced in each concept. The model uses data on past housing development and on current housing prices and construction costs (see Appendix for methodology) to predict the effects of potential land use changes and other policy changes on future housing production (New Multifamily Production – Model Estimate).

Each concept also includes nearly 40,000 units in large projects/development agreements that have been approved by the City. These projects make up the majority of San Francisco’s pipeline of future housing development and includes redevelopment areas and projects such as Candlestick, Treasure Island, Park Merced, Pier 70, and Mission Rock. In addition to the large projects, each concept includes an estimate of ADUs produced based on recent trends.

Estimates on funding needed for affordable homes were developed based on recent affordable housing production and preservation costs, current inclusionary housing policy, and the number of inclusionary units likely in new market-rate buildings.

Protections for existing multifamily rental housing and historic structures apply to all of the concepts, including restrictions on demolition or conversion and higher levels of scrutiny for any development affecting these sites. In addition, affordable housing preservation targets assume increased investment in acquisition and rehabilitation of existing rental housing serving low- and moderate- income renters.

The report’s policy analysis section contains more detailed information on policies including affordable housing production and preservation, protection and stabilization, land use and development rules, and housing finance and feasibility

TABLE 1.
HAS Baseline³² Estimate and Concept Targets for Future Housing Development by 2050

	Baseline	Target for 3 Concepts
New Multifamily Production – Model Estimate		
Market-rate	38,500	65,000
Inclusionary Affordable	8,300	13,000
Large Projects/ Development Agreements		
Market-rate	29,000	29,000
Inclusionary Affordable	6,200	6,200
OCII-funded units ¹	2,500	2,500
City Funded – 100% Affordable	10,580	28,300
Accessory Dwelling Units (ADUs)	6,000	6,000
Total Units	101,080	150,000
Total Affordable	27,580	50,000
% Affordable²	27%	33%

¹ OCII will fund affordable units committed to as part of the enforceable obligations of the former Redevelopment Agency before dissolution of Redevelopment.

² The Baseline affordable percentage of 27% is based on the recent historical average.



Photo: Sergio Ruiz, SPUR

CONCEPT 1**East Side Focus****Geography of Development**

In this concept the vast majority of new homes would be built in neighborhoods on the east side of the city close to Downtown, in light industrial areas, and neighborhoods near the eastern waterfront (light orange on map). This concept would expand the growth that has happened or is already planned in area plans and redevelopment areas such as Mission Bay, Transbay, Hunters Point/ Candlestick, Market and Octavia, and Eastern Neighborhoods (dark orange in map).

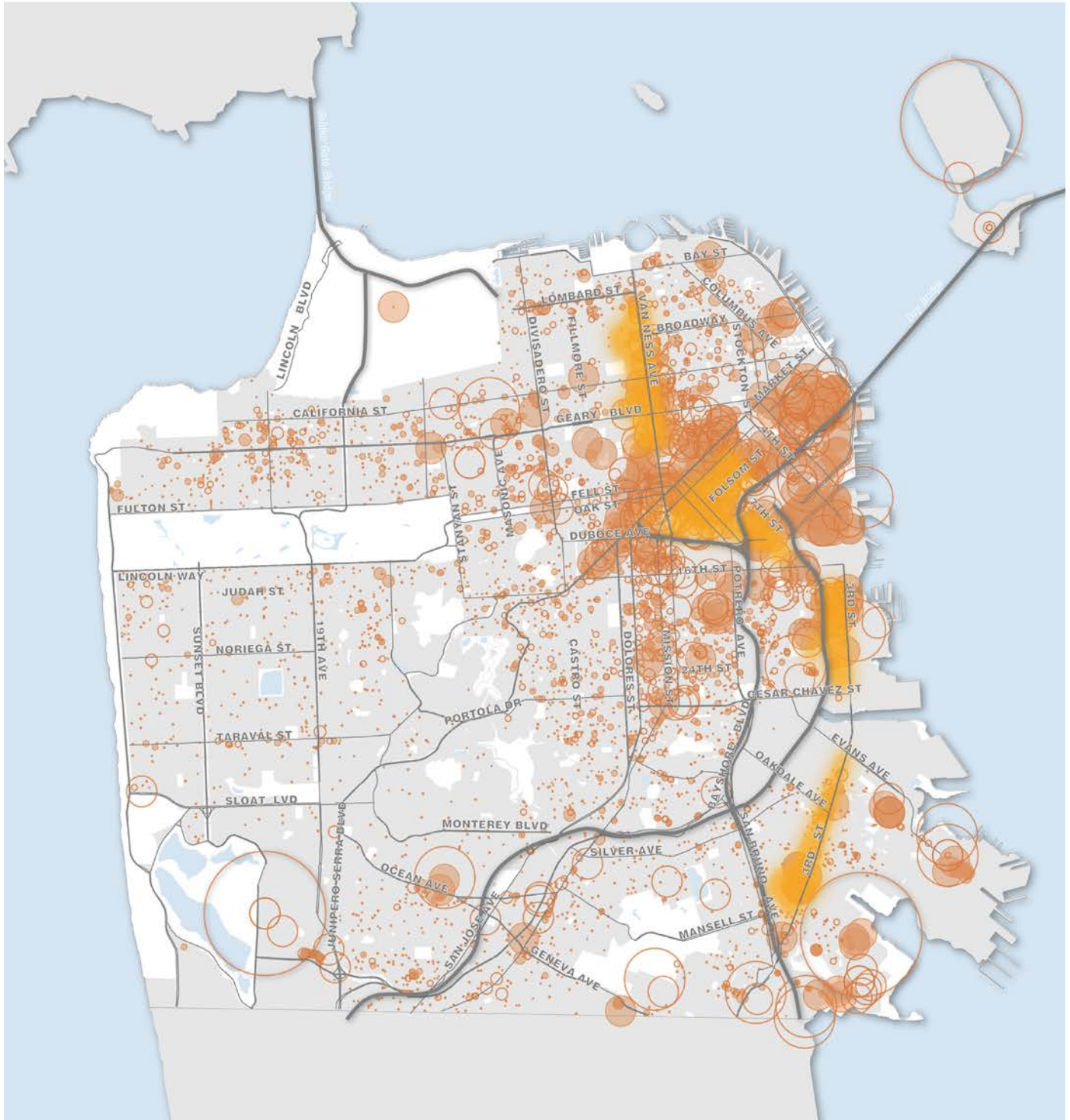
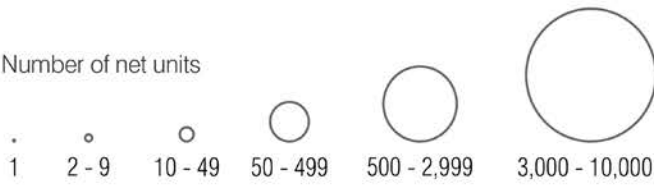
Growth on the western two-thirds of the city would be limited to a few large projects like Park Merced. Some homeowners would likely take advantage of the City's ADU program to add apartments to existing residential buildings. There would also be some new residential buildings added on neighborhood commercial streets but change would be limited in most west side neighborhoods.

Buildings and Neighborhoods

In this concept new homes would be added via taller buildings, including towers of 10 to 24 stories in locations closest to jobs and transit as well as mid-rise buildings of five to eight stories built in less central areas farther from the Downtown core. New housing and residents would add to busy, walkable neighborhoods filled with services, jobs, and activity. Allowing taller, denser buildings in more areas would create the opportunity to build far more homes overall and more inclusionary affordable homes by leveraging private investment. The east side already has numerous examples of this concept where areas near Downtown, light industrial areas, and former naval bases continue to be transformed into dense residential areas. While thousands of homes could be added in this concept, there would be significant change in some areas that currently have production, distribution, and repair ("PDR") space. PDR uses in these areas would likely be displaced and these jobs could leave the city.

Housing Affordability Strategy East Side Concept

Number of net units



Impacts

Affordable Housing: This concept would likely generate more inclusionary housing than the other concepts by allowing more large buildings that are required to financially support more inclusionary units. Higher inclusionary production could lower the public funding needed to meet affordable housing targets by tens of millions of dollars annually.

Equity Concerns: This concept would continue recent trends that focus new development in or near low-income neighborhoods and communities of color on the east side of the city, potentially accelerating changes in these neighborhoods. All of San Francisco is under displacement pressure due to a limited amount of housing and strong local and regional economic growth that attracts many high-income people but people on the east side may suffer an undue share of the burdens associated with population growth and construction activity. While this concept would generate more affordable housing, the associated growth would also require increased investments, services, and programs to ensure the needs of existing lower income populations are being met and that these neighborhoods remain diverse and mixed-income, in addition to continuing citywide efforts to strengthen tenant protections and services.

Local Business and Jobs: Some of the areas where new housing would be added in this concept are currently zoned for PDR uses that provide space for blue collar jobs and diverse businesses that could be lost. Policies could strive to replace PDR space or prioritize key employment sites for PDR preservation. At the same time, intensified residential development could strengthen neighborhood businesses and bring new jobs in local services to neighborhoods where new development occurs.

Transportation and Greenhouse Gas (“GHG”)

Reduction: This concept would put more residents in proximity to jobs and services encouraging use of existing transit as well as more walking and biking, lower vehicle miles traveled, and lower GHG emissions.

Infrastructure Improvement: Concentrated development in a few areas of the east side of the city would require additional parks, playgrounds, and schools as well as transit and street improvements. New, large residential development in concentrated areas could generate significant funding for community benefits including new parks and playgrounds and improved streets and sidewalks to enhance the streetscape and public spaces in these neighborhoods. Because areas on the west side of the city would see far less new residential development, there could be less investment on the west side in transit and other public infrastructure.

Uneven Access: The west side of the city currently has many of the amenities such as large parks, Ocean Beach, and higher performing schools that are far from most renters and multifamily housing. Adding growth on the east side would exacerbate access concerns to west side amenities.



Photo: Bruce Damonte

CONCEPT 2**Transit Corridors****Geography of Development**

In this concept, more new homes would be built along major transit lines and these lines would receive significant investments to accommodate additional ridership. Growth would be spread in major transit corridors in the north, south, and western parts of the city (light orange on map). Examples of this kind of neighborhood can be seen along some of San Francisco's streets including along Market Street between Castro Street and Van Ness Avenue, along Van Ness Avenue and Polk Street, along Mission and Valencia streets, along Third Street in Dogpatch and Bayview, and along Ocean Avenue near City College.

As with the other concepts, there would still be significant growth in area plans and redevelopment areas such as Mission Bay, Transbay, Hunters Point/ Candlestick, Market and Octavia, and Eastern Neighborhoods. There would also be large projects like Park Merced on the western side of the city. In

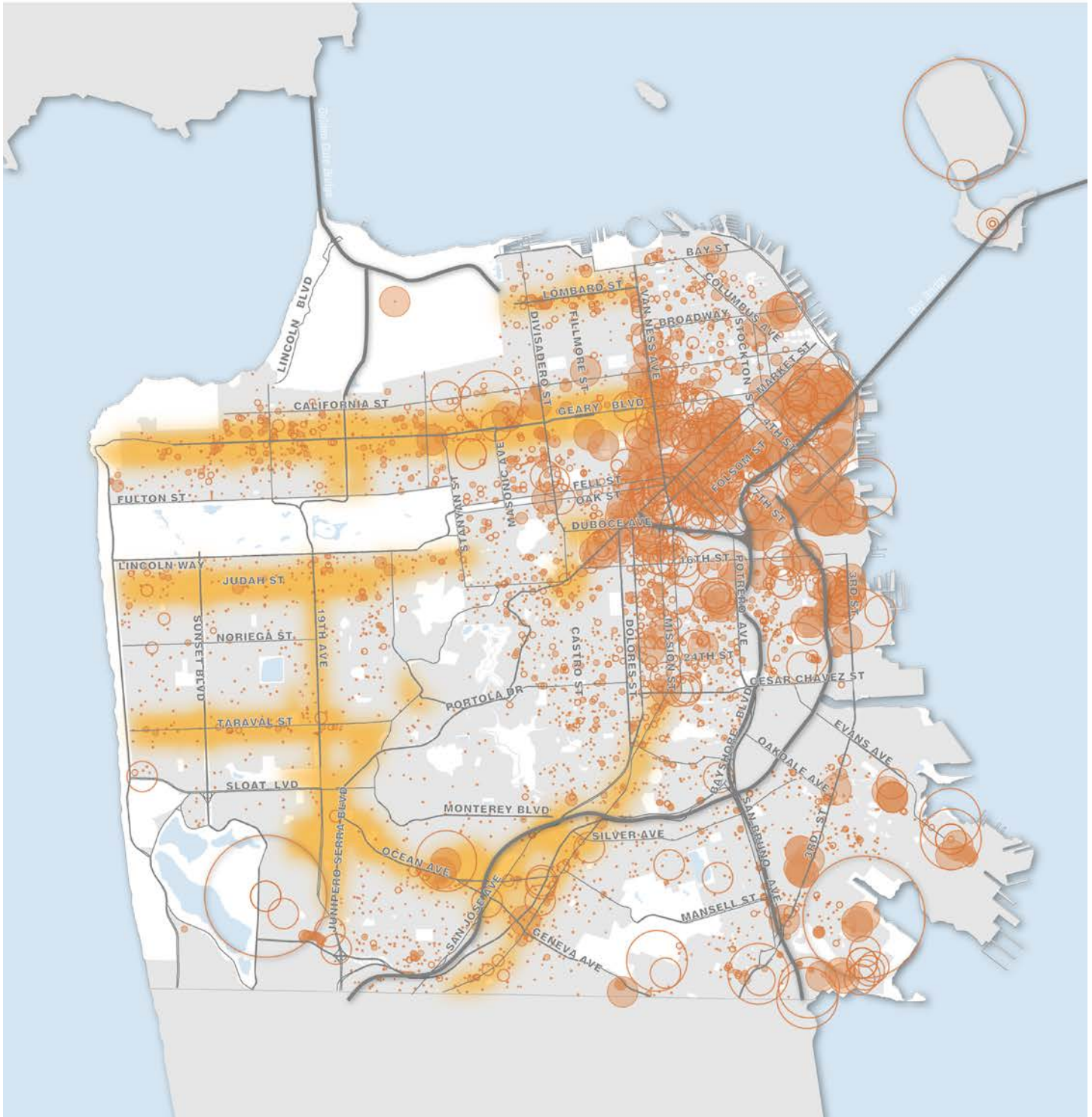
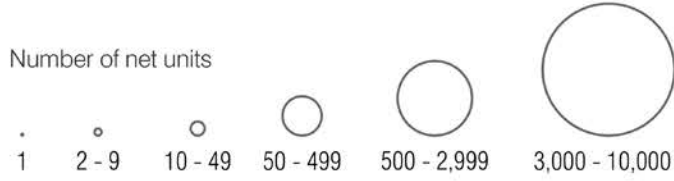
residential areas some property owners will also likely take advantage of the City's ADU program to add apartments to existing residential buildings.

Buildings and Neighborhoods

More multifamily buildings would be allowed in the blocks along upgraded transit corridors, mostly in midrise buildings of five to eight stories as well as in smaller buildings. Some homes would be added in towers of more than ten stories in a few places near major transit intersections, on wide streets, or in close proximity to major commercial and job centers. The resulting neighborhoods would be an active mix of ground floor commercial spaces and homes in both older and newer buildings. The blocks along transit would take on a distinct character with more activity and more multifamily residential buildings while nearby residential areas would remain lower scale. Existing apartment buildings would be protected but low-rise commercial buildings or single-family homes close to transit could be replaced with larger residential buildings.

Housing Affordability Strategy

Transit Corridors Concept



Impacts

Affordable Housing: While new buildings in this scenario would generally be shorter than the east side concept, the transit corridor concept would still likely generate significant inclusionary housing. Higher inclusionary production could lower the public funding needed to meet affordable housing targets by tens of millions of dollars annually.

Equity Concerns: This concept would distribute development over a larger area of the city than it has been in the recent past, which could reduce concentrated neighborhood change. Displacement pressures are already widespread in the city. Additional protection and stabilization policies for current renters and existing multifamily housing serving those renters could help ensure new transit corridor residential districts retain a diversity of old and new housing and preserve existing residents.

Local Business and Jobs: Increased housing development could strengthen businesses in commercial corridors and along transit by placing thousands of new residents nearby and could also bring new jobs and local services in the transit corridor neighborhoods.

Transportation and GHG Reduction: This concept would put more residents in proximity to the city's rapid transit lines and would also create neighborhoods with more concentrated local services within walking distance, reducing the need to drive and lowering vehicle miles traveled and GHG emissions.

Infrastructure Improvement: This concept would be centered around existing transit lines that will receive significant investment and improved service. Concentrated development near transit would also generate impact fees to improve streets, public spaces, parks, and transit itself. While there will be more residents overall, existing residents could enjoy improved services and infrastructure in this scenario.

Expanded Access: More of San Francisco's residents would have better access to the large parks, the beach, and higher performing schools found in the western part of the city.



Photo: Sergio Ruiz, SPUR

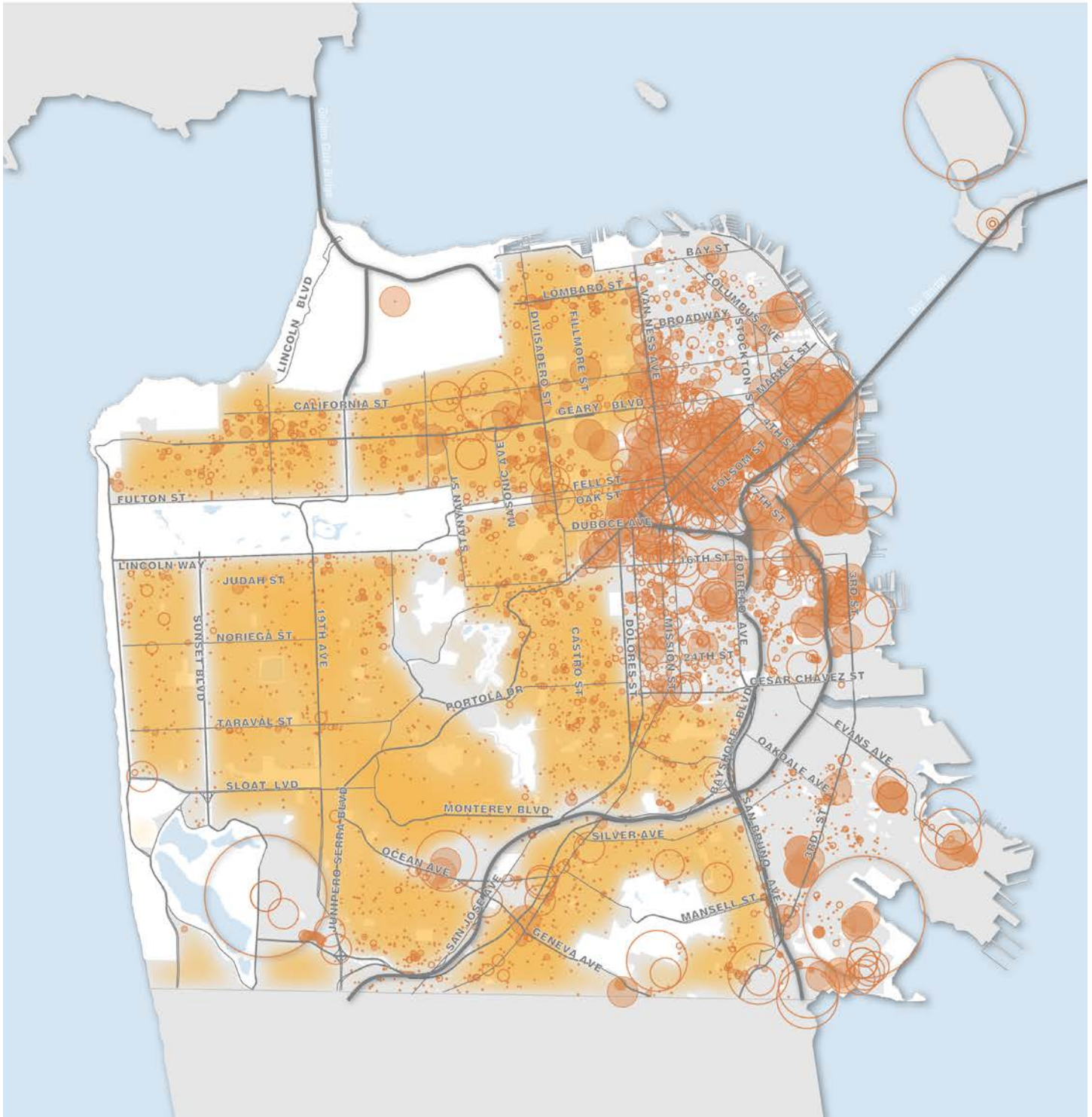
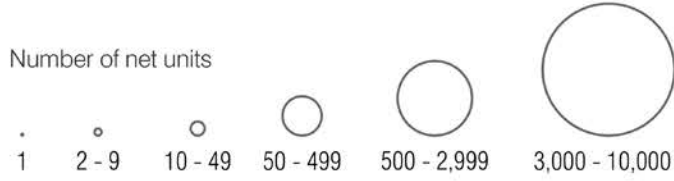
CONCEPT 3**Residential District Growth****Geography of Development**

In this concept, San Francisco would allow more homes to be added in neighborhoods where the number of homes allowed is currently very limited. These changes would allow more homes on the majority of the city's residential land currently zoned to allow just one single-family home (RH-1) or two-family homes (RH-2) per lot. More homes would also be allowed in zoning districts such as residential mixed (RM) and neighborhood commercial (NC) that allow multifamily housing but limit the number of units based on the square footage of the lot (areas of potential change are shown in light orange on the map). The number of homes allowed on residential lots in this concept would be based on rules controlling the form of buildings including height, bulk, setbacks, design requirements, open space, and requirements for multi-bedroom units.

In this concept there would be no change to limits on building height, but density limits would be removed. As with the transit corridor concept, there would still be significant development on major streets and commercial corridors because larger lots in these areas are attractive for development. In fact, housing development on these corridors is more likely than on the smaller residential lots nearby. As with the other concepts, there would still be significant growth in area plans and redevelopment areas such as Mission Bay, Transbay, Hunters Point/ Candlestick, Market and Octavia, and Eastern Neighborhoods (dark orange rings on map). There would also be large projects like Park Merced on the western side of the city. Property owners in residential areas could still take advantage of the ADU program but would have more flexibility to add a greater number of units.

Housing Affordability Strategy

Residential Growth Concept



Buildings and Neighborhoods

In this concept there would be no change in heights. Most new buildings on the west and south sides of the city would be the currently allowed four stories or a few stories taller or shorter based on existing height limits. On commercial corridors, multifamily buildings would include ground floor commercial space with neighborhood-serving businesses. Some homeowners could also transform single-family homes into multifamily buildings according to rules on height, multibedroom units, and other form-based controls described above. However, the high value of single-family homes in San Francisco could make transformation of these homes unlikely. The resulting development pattern would be more dispersed than in other concepts.

Impacts

Financial Opportunities and Challenges: The smaller residential buildings envisioned in this concept are similar to past eras of housing development but differ from current development patterns and therefore are harder to analyze and predict. As a result, this concept requires lower construction cost assumptions to get the same amount of housing as other concepts. The changes in this concept could allow families to transform single family homes by adding units to make space for multiple generations or add new rental units to increase family income. However, transformation of small lots and single-family homes could be costly due to high construction costs and home prices that result in high per-unit land costs for the new units. New financing types and a new generation of smaller scale homebuilders could be needed for this concept to fully succeed.

Affordable Housing: Because height limits are unchanged in this concept, new buildings are smaller in scale than new buildings in the other concept and less likely to provide inclusionary homes, requiring more public subsidy for affordable housing.

Equity Concerns: Of all the concepts, this approach would distribute development most broadly in the city, reducing concentrated neighborhood change. Displacement pressures are widespread in the city

and additional protection and stabilization policies could still be needed to help stabilize existing renters and multifamily housing.

Local Business and Jobs: In this concept a large portion of residential development would still be in neighborhood commercial corridors so some corridors could see more residents and activity. However, the more dispersed nature of development in this concept would not result in the same concentration of local businesses, jobs, and services as the other concepts.

Transportation and GHG Reduction: This concept could more widely distribute new housing around the city and residents could be farther from transit or neighborhood services. As a result, residents might rely more on cars generating more traffic and GHG emissions.

Infrastructure Improvement: Because development would be more dispersed in this concept, improvements in major transit lines might benefit fewer people. In addition, infrastructure needs could grow in neighborhoods around the city, but dispersed and lower-scale development might not generate the same community benefits or investments to address those needs.

Expanded Access: This concept would allow more housing and residents throughout San Francisco's neighborhoods allowing more access to the city's largest parks, the beach, and a range of schools and residential neighborhoods, providing more equitable access.

Summarizing Benefits & Challenges of Different Concepts

Each of the concepts for housing development could potentially accommodate significantly more housing than we have today, including substantially more affordable housing. However, the impacts on different neighborhoods, required public investment, and lifestyle implied by each concept could be very different. In the following table, we summarize similarities and differences among the concepts.

	Concept 1: East side Focus	Concept 2: Transit Corridors	Concept 3: Residential District Growth
Increase in Zoned Housing Capacity Over Baseline	19%	27%	41%
Share of Future Housing in Eastern 1/3 of City	75%	50%	50%
Share of 50,000 Affordable Units From Inclusionary	41%	39%	35%
Percentage Increase in Public Funds Needed for Affordable Housing	156%	167%	185%
150,000 Units Likely to Be Produced	Yes	Yes	<i>Depends partly on lower construction costs</i>
Over 40,000 Units in Large Projects	Yes	Yes	Yes
Need for New Transit Investments	Yes	Yes	Yes
Access to Existing Job Centers	Yes	Yes	
Access to Existing Community Facilities like parks		Yes	Yes
Change in Scale and Appearance of Buildings	Yes	Yes	<i>Possibly</i>

The three concepts illustrate that San Francisco could add similar amounts of housing in very different ways depending on the priorities of city residents. Each concept will likely need increased investment in public infrastructure including transit, streets, parks, and schools as well as increased and sustained affordable housing investment. Future housing policy could combine elements of each concept to create an approach that is stronger than any of the individual concepts alone.

Equity must be central to the future of housing planning and policy in San Francisco if the city is to reverse discriminatory policies and negative outcomes for communities of color and lower income San Franciscans. Segregated housing patterns can only be addressed by concerted efforts to create more diverse housing opportunities in more parts of the city. At the same time, special attention will need to be paid to the stabilization of existing communities of color and low-income communities along with the creation of additional housing in those neighborhoods. Specific investments will be needed to help communities that have been leaving the city, such as the Black community, to remain and return to San Francisco.

The following sections of the report look more in depth at key policy issues that will need to be addressed for any of the land use concepts to be successful and the city's housing targets to be met or exceeded. These policy issues include housing development feasibility and costs, regulation of housing development, affordable housing funding, and protection and stabilization policies and services for vulnerable residents.



Policy Issues

Photo: MOHCD

This section addresses core policy issues that need to be considered to implement any combination of the land use concepts discussed in the prior section. In order to meet the targets of 5,000 units per year with at least one third affordable, while increasing community stability the city will need a comprehensive approach of production and preservation of housing and protection of residents, particularly tenants. The core policy issues explored in this section were defined based on community and housing experts' input as well as analysis by consultants and staff. The policy issues that follow summarize challenges and opportunities ahead. Each of these policy issues is further developed in individual white papers with additional analysis of historic and current trends and future potential to scale current efforts to achieve the City's housing targets.

The first two policy issues discuss the economic and regulatory context for housing development. The third policy issue analyzes affordable housing policy and funding. The fourth policy issue highlights key community stability strategies.

1 Housing Development Feasibility and Costs

explains the key factors affecting whether new housing is likely to be built, including financing and investment sources, major costs including land and construction, housing markets and prices, and the financial factors affecting the decision to build. This summary also looks at potential policies and technologies that could lower costs.

2 Regulation of Housing Development

reviews how San Francisco has guided housing development over time with various rules, zoning regulations, and processes. The section also looks at how San Francisco could potentially encourage more multifamily housing, especially affordable housing, through changes to its housing planning, approvals, and permitting process.

3 Affordable Housing Funding, Production, and Preservation

analysis presents information on affordable housing funding, both past and future, housing production and preservation trends, and policies to produce and preserve affordable housing. It includes the assessment of the City funding needed to achieve production and preservation targets.

4 Tenant Protections, Housing Stabilization, and Homeless Services

complements the previous three policy issues with strategies to protect and care for the most vulnerable populations. It focuses on the community stability strategies that need to be implemented parallel to housing production and preservation. This section builds on extensive research and analysis included in the Community Stabilization Initiative (CSI) as well as the targets provided by the Strategic Framework developed by the City's Department of Homelessness and Supportive Housing (HSH).

Housing Development Feasibility and Costs

Reaching the City’s targets for housing production and preservation depends on sustained development of both privately financed, market-rate housing, inclusionary affordable units, and publicly funded, affordable housing. The likelihood of housing construction depends on the relationship between development costs and prices/rents, which ultimately determines the financial feasibility of development. Development costs in the Bay Area and San Francisco have been soaring, creating a barrier to the production of all types of housing. This summary provides background on the financial considerations that drive private housing development, and how potential policies could help to lower the cost of development, and increase the feasibility and likelihood of new housing production citywide.

Financial Feasibility of Privately Financed Housing

Private real estate developers rely on a combination of equity and debt financing to obtain the capital necessary for development. Developers must demonstrate that a project is financially feasible to lenders, equity investors, and landowners. Each of these stakeholders has its own requirements and financial expectations:

- **Lenders.** Banks and other institutions that provide debt financing for development projects must be satisfied that the development project is at low enough risk of default. Lenders will only underwrite loans that meet certain financial performance benchmarks.
- **Equity investors.** Equity investors (e.g. pension funds, insurance companies, labor unions, sovereign funds) compare the expected risk and return to other opportunities, which could include other real estate projects or investments in businesses or stocks.
- **Landowners.** After factoring in project revenues and costs, a real estate project must still generate enough “residual land value” to purchase the land at a price that is attractive to the property owner.

A development project is feasible if it can achieve the required return and residual land value, after factoring in the development costs and revenues, which are described in more detail below. In San Francisco, lenders and equity investors typically require a 15 to 25% margin or return over their development costs. The expected return varies depending on the risks associated with securing entitlements, complexity, market conditions, and schedule.

Development Costs

Development costs include the following four categories:

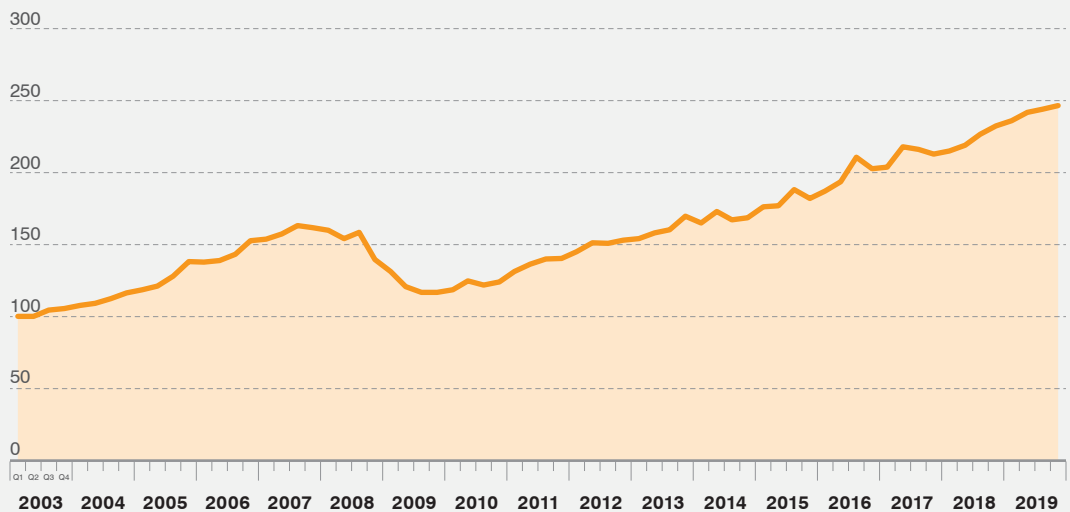
1. Direct or “hard” costs. Hard costs include the direct cost of constructing buildings and other improvements on site such as landscaping and infrastructure. Taller buildings with more development intensity are more expensive to build per unit because they require sturdier structural elements, higher standards of fire-proofing, and other amenities such as elevators. High-rise buildings are usually built with steel and/or reinforced concrete, a more expensive form of construction per square foot, whereas low-rise buildings can be made from less expensive wood frame construction.

Construction costs in San Francisco have been rising steadily over the last decade. In 2019, San Francisco had the highest construction costs in the world.³³ Construction bids have escalated rapidly since the Great Recession, at a compounded annual growth rate of 7.3% from 2011 to 2019.³⁴ Construction industry experts are projecting continued cost inflation of between 4.5 and 7.0 % in San Francisco in 2020.³⁵

According to interviews with developers and contractors, and a review of recent reports on construction costs, some of the factors that are affecting construction costs include:

- A shortage of experienced construction workers, combined with a booming construction market, with many major projects in the pipeline.³⁶
- Lack of competition from subcontractors, especially in specialized trades (electrical, plumbing, etc.), is driving up bids for new development projects.

FIGURE 7.
Construction Cost Index



Source: TBD Consultants, Construction Bid Index

- The impact of tariffs on the price of building materials, and uncertainty regarding future trade policies.³⁷

The use of innovative construction technologies has the potential to significantly reduce the cost of development, for both market-rate and affordable housing projects.³⁸ There are two types of technologies that have been explored for this strategy:

- **Modular construction**, which involves the production of residential units offsite. Individual units are prefabricated in a factory, and then assembled on-site. In recent years, several market-rate and affordable projects throughout the Bay Area have been using modular systems for new housing developments. Developers estimate that in some cases, modular construction can reduce overall construction costs and time by 15 to 30%.
- **Mass timber**, which involves the use of newly engineered materials like cross-laminated timber for residential buildings. Because these new technologies are untested in the U.S., they are presently more expensive than traditional wood construction. However, this dynamic is forecast to change in the next five to ten years, as building codes are updated, and the production of the material is scaled up. Mass timber provides a variety of efficiency and cost advantages compared to

conventional residential construction. Contractors estimate that mass timber could reduce overall construction costs by 15 to 25%.³⁹

2. Indirect or “soft” costs. Soft costs include indirect costs associated with the project, including professional fees for design and engineering, and other costs such as taxes, insurance, planning and permitting fees charged by the City, and the cost of financing.

3. Municipal impact fees and inclusionary housing requirements. Municipal impact fees are fees charged to offset the impact of development on City services and the community at large. In San Francisco, impact fees vary by neighborhood, as many areas have imposed additional fees or special taxes for affordable housing, neighborhood infrastructure, or other community facilities. The City’s Inclusionary Affordable Housing policy requires private housing development to provide affordable units either onsite or offsite, or to pay in-lieu fees.⁴⁰

4. Land cost. Generally speaking, land costs are determined by location and the types and intensity of uses allowed by zoning. Based on market research for different areas of the city, the value of land can range from \$200 to more than \$1,000 per square foot, depending on the location and the density permitted by zoning.⁴¹

Revenues

Revenue sources for housing development consist of the rents collected (for rental apartments) or sales revenues (for-sale townhomes and condominiums). Some projects have other smaller sources of revenue, including parking leases, and commercial lease revenues in mixed use developments.

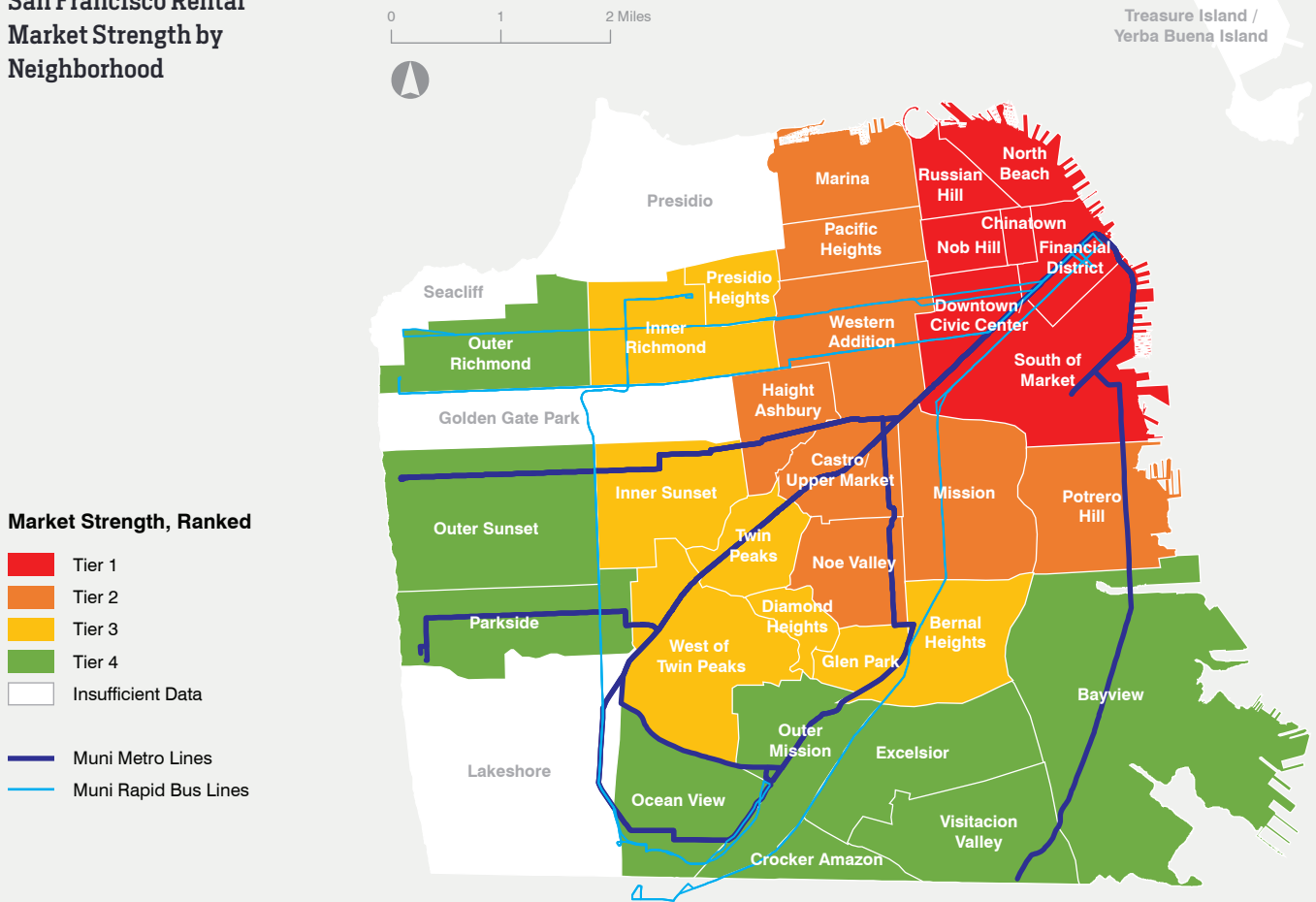
Location matters a great deal for revenues; different areas of the city command varying sales prices and rents, based on their proximity to jobs and transportation, neighborhood services and amenities, and safety and desirability. The map in Figure 8 illustrates four levels of market strength based on apartment rent data and recent development activity.

Tier 1 Downtown Core submarkets include the northeastern section of San Francisco where new development activity is strong, including high-rise housing projects. The rents are highest in these areas due to the proximity to amenities, major transit corridors, and Downtown jobs.

Tier 2 Central Ring submarkets represent areas where rents are not as high as Tier 1 but have attracted low-rise and mid-rise multifamily housing projects.

Tier 3 Outer Ring and **Tier 4 Western and Southern** submarkets: have has sporadic multifamily housing development. Many of the neighborhoods in these areas are dominated by single-family homes, where larger scale housing development is not permitted.

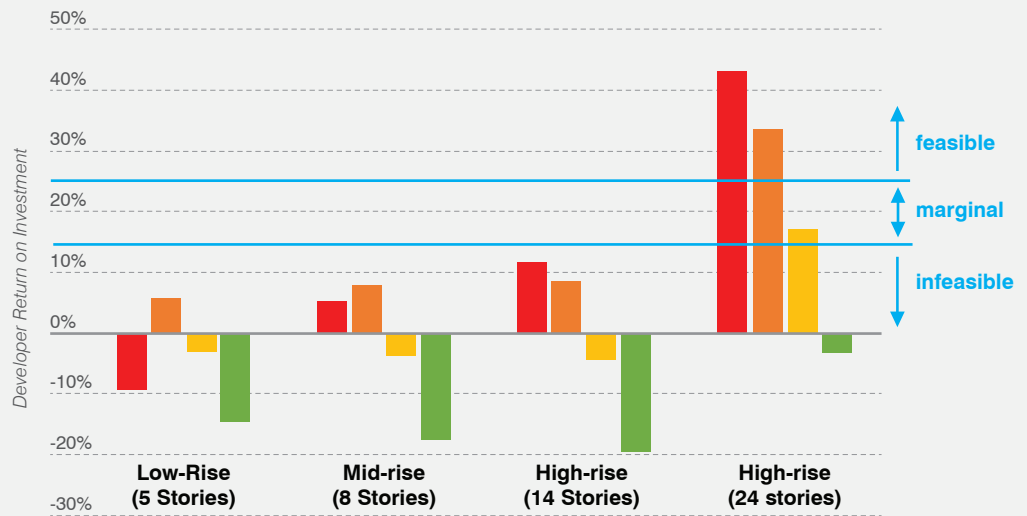
FIGURE 8.
San Francisco Rental Market Strength by Neighborhood



Source: City of San Francisco, 2019; Strategic Economics, 2020.

FIGURE 9.
**Typical Pro Forma
 Developer Return by
 Building Type and
 Submarket under Current
 Development Cost and
 Market Conditions**

- Tier 1
- Tier 2
- Tier 3
- Tier 4



*Note: Tier 1 Downtown Core, Tier 2 Inner-Ring Neighborhoods, Tier 3 Outer-Ring Neighborhoods, and Tier 4 Western and Southern Neighborhoods
 Source: Strategic Economics, 2019

Feasibility of Residential Development in San Francisco Today

- Despite extremely strong demand for housing, development feasibility is a challenge for many parts of the Bay Area, including in many areas of San Francisco. In recent years, rising development costs region-wide have outpaced the rate of growth in rents, which has prevented production.
- Under current market conditions and development costs, taller high-rises (more than 20 stories) are generally more financially feasible than other building types in the strongest submarkets (Tier 1 and Tier 2). This is because new, high-rise developments can generate revenues that can offset the cost of development.
- Recently, some low- and mid-rise housing projects have been completed in San Francisco, especially in Tier 2 submarkets, but developers have reported that these building types are more challenging to finance now with the current development cost structure.⁴²

Strategies to Improve Feasibility

There are a variety of policy tools that could ease development costs and stimulate production across a wider range of building types and in more submarkets. These include strategies to reduce construction costs, reduce fees on development, public investments in infrastructure and amenities, and encouraging smaller scale infill projects in lower density neighborhoods.

Update regulations to facilitate mass timber and modular construction. As the construction innovations become more widespread, and more production facilities become active, the adoption of mass timber and modular construction could reduce hard costs by between 15 to 30%, according to estimates from developers and contractors. The cost reduction could significantly improve the financial feasibility of housing.

The City of San Francisco can put policies in place to facilitate the transition to new construction technologies by updating building codes and permitting processes. San Francisco’s building code would need to adopt new standards for mass timber technologies to be implemented at a larger scale, especially for taller buildings.

Workforce development. The City of San Francisco can coordinate with community-based organizations, labor, and workforce training programs to ensure that there is a growing number of workers and sub-contractors. Workforce development programs in the construction industry are important both for conventional housing development and for preparing workers for off-site manufacturing and construction jobs using newer technologies.

Impact fee and area fees. Citywide impact fees are estimated to be, on average, approximately \$25 per gross square foot of building area. These fees are higher in plan areas that are upzoned, such as special use districts (SUDs). In submarkets where market-rate development is less financially feasible, reducing the City fee structure may enable more housing, especially in Tier 2 and Tier 3 submarkets.

City investments in infrastructure and neighborhood amenities can help to support new housing development in inactive submarkets. The City can play a lead role in strengthening development markets by supplying infrastructure and improving amenities in Tier 3 and Tier 4 neighborhoods that are not seeing much new housing development, in order to spur the addition of new market-rate and affordable housing in these areas.

Encourage “small-scale infill” development in single-family neighborhoods. Many of the lower density neighborhoods in San Francisco have very small parcels, making it difficult to assemble the land required for larger projects. Rezoning those neighborhoods where currently single-family homes predominate could create significant new opportunities for small scale development, ranging from duplexes to buildings with over 20 units.

Adoption of Streamlined Environmental Review and Approvals Processes can increase clarity, shorten development timelines, and lower risk for developments, thereby lowering costs and increasing likelihood that housing is built. Projects can receive streamlined environmental review and streamlined design review if the project is on a site already covered by an Environmental Impact Report (EIR) completed as part of an area plan, where changes to zoning, heights, design guidelines, and other

development regulations are created for a whole neighborhood or broad areas through extensive engagement with communities. Streamlined approvals can also be granted to specific kinds of projects, such as projects that provide higher than average amounts of affordable units or add housing to existing buildings, such as ADUs. For more on policies and regulations to support the development of housing see the following policy summary on Regulation of Housing Development.

Regulation of Housing Development

Development regulations govern how land can be used in San Francisco and ultimately control both where and how much housing can be built. Implementation of any of the changes included in the land use concepts for future housing development described earlier would need to be implemented through changes to San Francisco's development regulations. The city has a notoriously complex system of development regulations, developed over time to serve the changing context of a growing, diverse, and unique city. After a brief history of development regulation in San Francisco, this section provides an overview of the main local tools that guide housing development and impact affordability. It also includes a perspective on potential future regulatory strategies to support housing affordability.

Brief History of Development Regulation

Early Housing Development in San Francisco:

Up until 1920, San Francisco grew with little development regulation. An early ordinance from the 1850s regulated the location of slaughter houses, however, specific regulation of land uses and buildings was not the rule. The first residential areas were compact and restricted geographically by limited transportation routes. By the early 1900s, cable car and electric streetcar lines allowed residential neighborhoods to expand outward from the historic commercial center, west through Pacific Heights and the Western Addition to the Richmond, southwest to Upper Market, Castro and Noe Valley, and south through the Mission. These neighborhoods were characterized by diverse scales, styles and types of housing – a mix of hotels, boarding houses, apartments, flats, triplexes, duplexes, townhouses, and single-family homes – often in vibrant, walkable communities. Many of San Francisco's quintessential neighborhoods feature a range of residential buildings with a remarkable variety of housing units that may not be obvious based on the appearances of buildings.

Introduction of Development Regulations: As urbanization progressed, cities across the United

States faced growth challenges including public health and sanitation, waste disposal, water quality and distribution, and housing and infrastructure capacity. In response, cities began to enact formal development regulations. In 1921, San Francisco passed its first true Zoning Ordinance, focused on the avoidance of nuisance and other conflicts resulting from proximate incompatible uses.⁴³ The ordinance was limited in scope, and did not include height limits, setbacks, or open space requirements and other now-common controls. Over time, however, San Francisco's system of development regulation became increasingly complex and restrictive – first with new use zones, more specific use definitions and restrictions, form controls, and open space requirements.

Development Regulation and Equity:

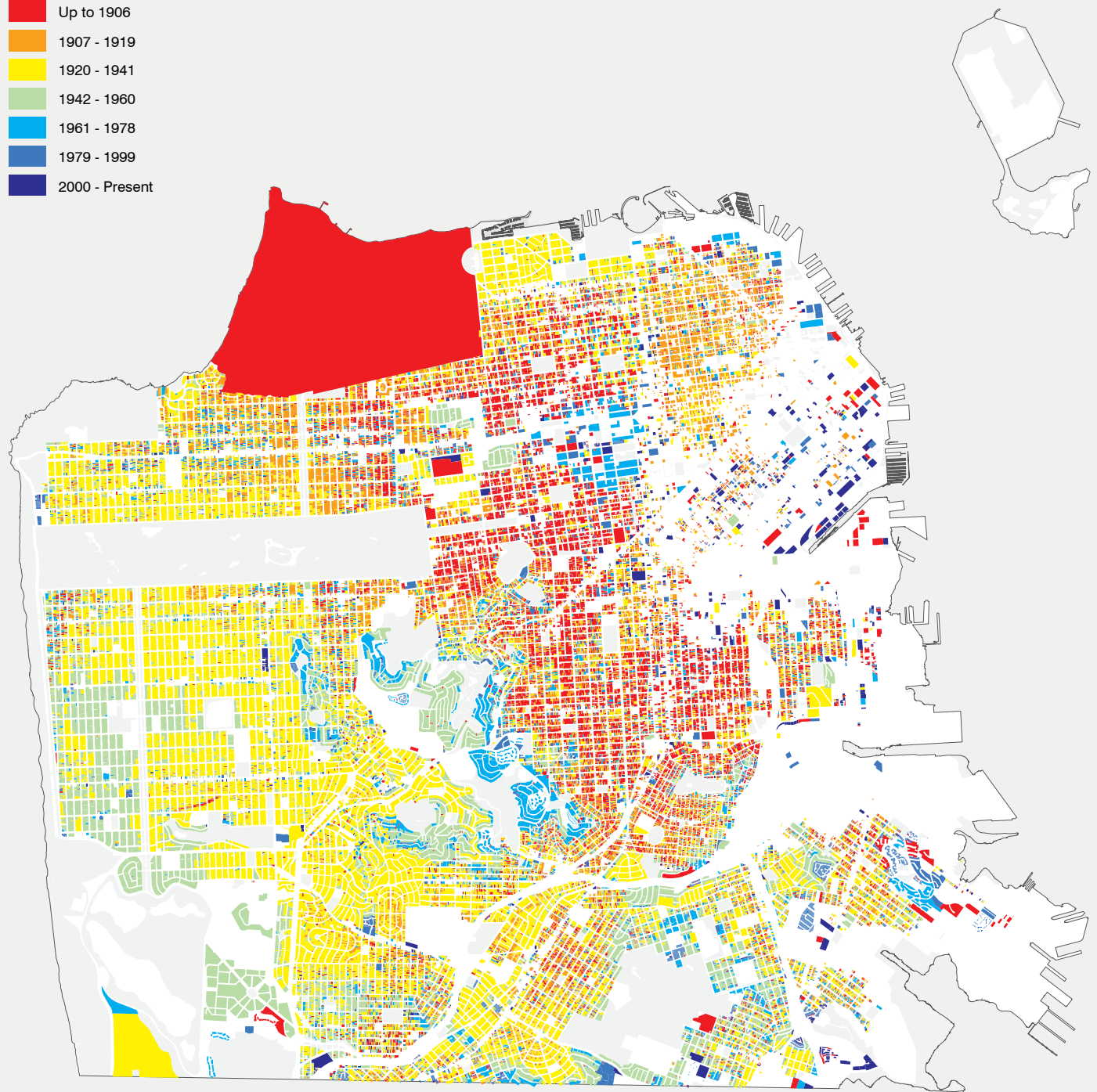
Discrimination in San Francisco building and housing policies began at least 50 years before the adoption of the Zoning Ordinance. The 1870 Cubic Air Ordinance imposed fines and jail time on landlords and renters who lived in rooming houses primarily found in Chinatown that did not meet requirements of 500 cubic feet of air per person.⁴⁴ Chinese immigrant laborers lived in these crowded rooming houses largely because they were not able to rent or own in other areas due to discriminatory housing practices.⁴⁵ In the 1880s San Francisco targeted Chinese-owned laundries by selectively enforcing a rule that laundries be located in brick buildings (most laundries at the time were in wooden buildings). Chinese laundry owners ultimately won their discrimination case in the U.S. Supreme Court.

Beginning after WWI, discriminatory federal housing policy, and banking, real estate, and development practices, divided the city spatially; pushing low-income communities and communities of color to older, more-central neighborhoods, and middle class and affluent populations into newer more remote suburban neighborhoods, often limited to single-family homes. Once discriminatory practices were legally prohibited, restrictive zoning continued to limit multifamily housing, restricting access to affluent neighborhoods for people of color and low-income people. Furthermore, the introduction over time of increasingly restrictive density limits⁴⁶ has resulted

FIGURE 10.
All Housing by Year Built

Year Built

- Up to 1906
- 1907 - 1919
- 1920 - 1941
- 1942 - 1960
- 1961 - 1978
- 1979 - 1999
- 2000 - Present



in a high percentage of the city's population living in multifamily residential buildings in neighborhoods where these buildings could not be built today.⁴⁷

Concentration of Modern Housing Development:

More recently, San Francisco has completed a number of areas plans and development agreements which increase housing capacity in select areas, mostly on the eastern side of the city. As a result, housing development today is overwhelmingly concentrated in a few neighborhoods where zoning or developments agreements allow multifamily buildings. About 70% of all new housing, including new affordable housing, has been built in just five neighborhoods on the east side of the city and nearly 90% of housing development is concentrated in 10 out of the city's 39 Planning Analysis neighborhoods.

The pipeline of future housing development, shown in Figure 11B, is similarly concentrated in a limited number of neighborhoods on the east side of San Francisco. The eastern side of the city also happens to be where a large portion of San Francisco's vulnerable populations live, meaning those groups are disproportionately impacted by change. There are many additional neighborhoods of relatively greater socio-economic stability and resources in other parts of the city that could offer housing possibilities in the future. In addition, much of the city's future housing development is concentrated in a few large projects with considerable infrastructure needs such as Candlestick, Hunters Point, and Treasure Island. Completion of this housing will come over many years or even decades as these complex projects are built out.

Types of Development Regulation

The General Plan: The General Plan is the foundation for local land use planning. It is the embodiment of San Francisco's vision for the future, serving to guide the City's evolution and growth over time. The General Plan provides a comprehensive set of objectives and policies that influence how we live, work, and move about, as well as the quality and character of the city. The General Plan reflects community values and priorities through its public adoption process, ensuring both private development and

public action conform to this vision. All land use ordinances and policies flow from the General Plan and development projects must be found to be consistent with the General Plan for approval. In addition to planning the physical city, the City Charter requires consideration of social, economic, and environmental factors.⁴⁸

The Planning Code: While regulations affecting development are found in many parts of the Municipal Code, most of San Francisco's development controls reside in the Planning Code, created in part to: 1) guide growth in accordance with the City's General Plan; 2) protect the character and promote the use of areas of the city for the benefit of its residents; and 3) secure safety from hazards, provide property access, and maintain environmental quality (including adequate light, air, and privacy) indispensable for beneficial property use and the retention of value.⁴⁹ While San Francisco's system of development regulations has historically proven useful in advancing these and other City priorities, current Planning Code controls also create considerable obstacles to advancing greater housing affordability.

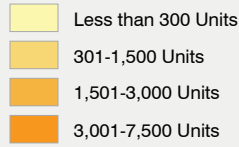
After 100 years of additions, San Francisco's Planning Code has become a labyrinth. The current Planning Code comprises nearly 840,000 words detailing the regulatory framework for 116 distinct Land Uses within 207 zoning and Special Use Districts (some limited to a single lot).⁵⁰ Moreover, the Code is frequently amended, creating additional administrative challenges for timely project review and approval.⁵¹ Procedural requirements add time to the development process and, since time costs money, further drive up the cost of housing production, which impacts housing affordability.

Key types of development regulation, established by the Planning Code, include zoning controls, design guidelines, process for project review and approval, and the application of required fees.

Zoning Controls: The most common and widely recognized category of development regulations are the prescriptive, codified controls known as zoning controls.⁵² In San Francisco, zoning specifies how land can be utilized, the conditions for use allowed or required, and any limitations which apply. For example, zoning regulation controls:⁵³

FIGURE 11A.
Housing Production by Neighborhoods

Net Units



Housing production and pipeline- both market-rate and affordable- are concentrated where area plans have been completed. Nearly all recent and planned housing, including affordable housing, is concentrated in a few neighborhoods on the city's eastern third.

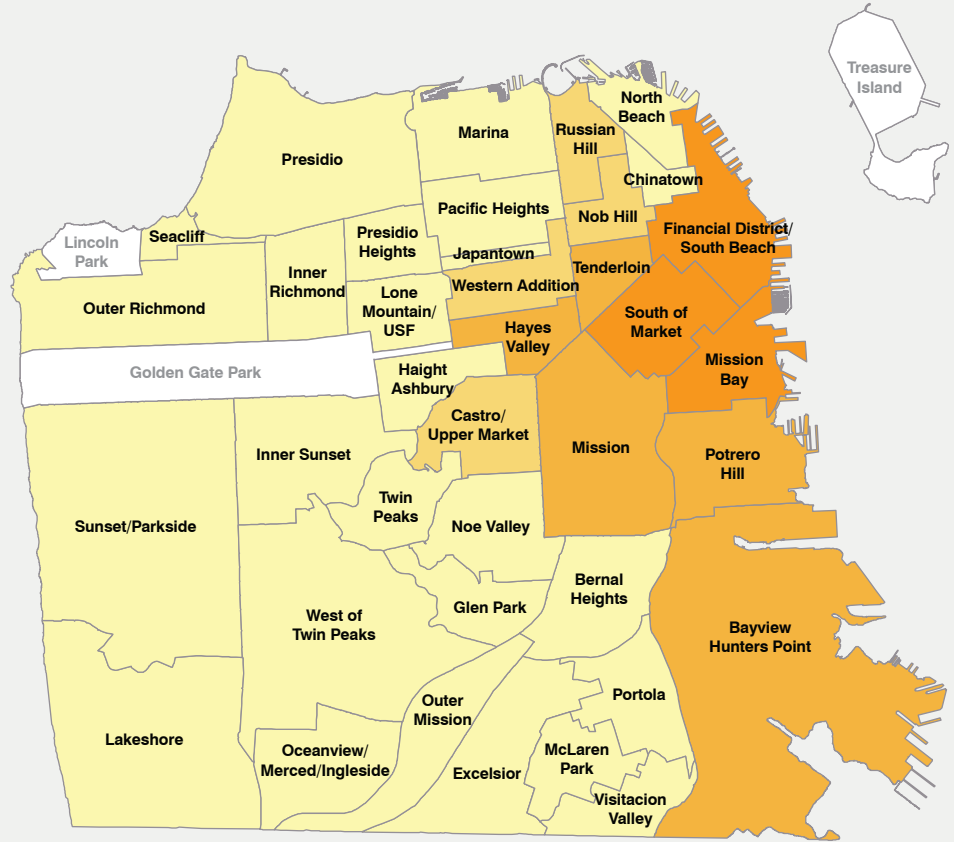


FIGURE 11B.
Housing Pipeline by Neighborhoods

Net Units

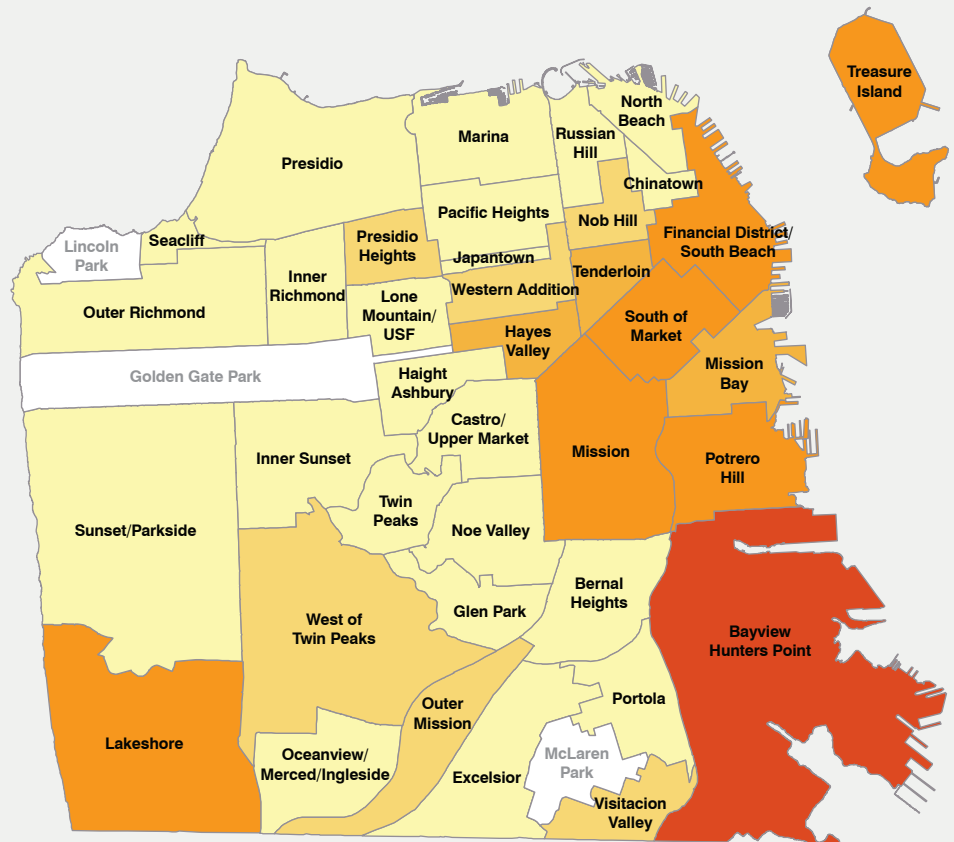
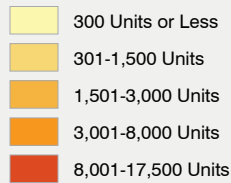
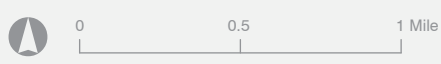
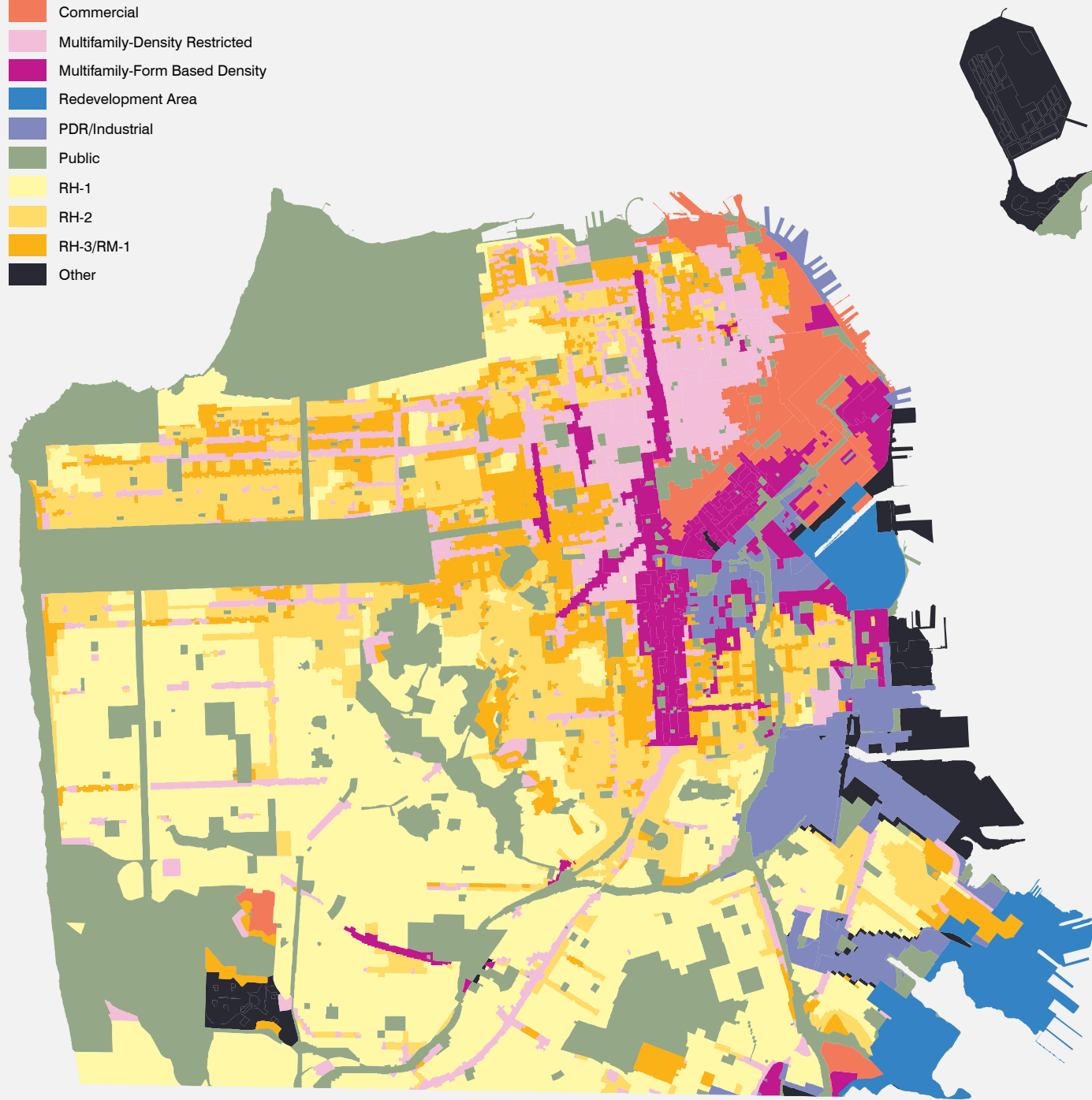


FIGURE 13.
Housing Affordability Strategy Zoning Categories

Zoning Categories

- Commercial
- Multifamily-Density Restricted
- Multifamily-Form Based Density
- Redevelopment Area
- PDR/Industrial
- Public
- RH-1
- RH-2
- RH-3/RM-1
- Other



- determine how land is allotted in use zones and what types of uses are allowed within each zone;
- limit the intensity of a use on a site – the floor area of a commercial use, the number of dwelling units, etc.;
- govern sizes, heights, and shapes of buildings and, in some cases, required space between buildings;
- require accommodations for access and service such as bicycle parking spaces, or loading;
- designate certain structures or districts as historically or culturally relevant and invoke standards for retention of resources.

60% of land in San Francisco is zoned to allow residential uses. 33% of the total land area is reserved for public uses including open space (such as parks and playgrounds) and institutions (such as public schools and universities), and about 7% is zoned for industrial and PDR uses. Of land zoned to allow residential uses, the largest portion, 41%, is reserved for single-family homes (RH-1) while another 18% allows up to two homes (RH-2) per lot. Multifamily housing of more than three units is allowed on just 30% of residentially zoned land, in multi-family, mixed use, and commercial zoning districts.

As a result of the City's zoning controls, 90% of all new housing and 80% of affordable housing built since 2005 has been added in just a few zoning districts. The limited areas of the city where zoning allows multifamily housing explains why nearly all housing is built in just a few neighborhoods. These areas either have had zoning in place that allows multifamily housing or have had recent area plans, redevelopment areas, or specially negotiated development agreements that allow multifamily housing to be built. Figure 13 shows the limited extent of where multifamily housing is allowed in San Francisco, overwhelmingly located on the east side of the city.

Design Guidelines: In addition to Zoning, the City has adopted Design Guidelines to provide contextual controls that supplement the zoning standards. Guidelines implement the Urban Design policies of the City by reinforcing compatibility with local

character, placemaking, livability, and sustainability based on the conditions unique to a specific site. Design guidelines are interpreted by professional staff experienced in urban design and architecture and applied on the basis of precedent for consistency, clarity, and predictability over time.

Process and Fees: Together, the zoning controls and applicable guidelines establish what can and cannot be built on a site. After this is determined, a development project faces procedural requirements related to the review and approval (or disapproval) and various application and impact fees assessed by the City. Procedural requirements include staff review for compliance with applicable zoning and design guideline requirements, environmental review (as necessitated by the California Environmental Quality Act, CEQA), public notification and hearings, and discretionary review. Procedural requirements are intended to ensure appropriate administrative and public vetting of projects to determine consistency with the General Plan and to identify, avoid, and/or mitigate potential impacts.

Procedures take time to complete, which can indirectly add cost to a project. In most California jurisdictions, development projects are subject to either ministerial or discretionary processes. San Francisco's Charter establishes that every project is discretionary, unless exempted from local discretion by state law. State law further requires that all discretionary projects receive CEQA review. The reliance on discretion for all San Francisco planning review, results in the application of CEQA to a large body of projects that would be ministerial in the rest of the state. Various fees imposed on a project by the City, to cover the costs of reviewing and processing applications or to mitigate the impacts created by new development, directly add to the cost of a housing development project as well.⁵⁴

State and Local Reforms

In recent years, state and local authorities have begun to alter development regulations to address the acute housing shortage and affordability crisis. In a shift away from long-standing deference toward local control of development, California has taken action both to increase housing capacity and reduce project approval time with laws such as SB-35,

Project Intake, Environmental Review & Approval Process

This flowchart provides an overview of Planning Department's project review and approval procedures for projects with two or more housing units.

LEGEND

- Process Milestone
- Current Planning
- Environmental Planning
- Project Sponsor
- EIR - environmental impact report
- NA - Notice of Incomplete Application
- PD - project description
- PPA - preliminary project assessment
- SOW - scope of work
- SDAT - streets design advisory team
- RDAT - residential design advisory team
- UDAT - urban design advisory team

1 Preliminary Project Assessment
60 DAYS

- PS Files PPA application, pays fees.
- CP Conducts preliminary plan check, SDAT, UDAT, manages the overall PPA process, consolidates and issues PPA letter.
- EP PPA/intake planner assigned, conducts environmental screening, completes EP PPA Checklist.
- CP Planner Tech issues PPA letter.

2 Project Application Acceptance
30 DAYS

- PS Files Project Application, pays fees, submits additional materials, and hires environmental consultants, if needed.
- CP Planner Tech saves Project Application and Plans in PRJ record, creates NIA in M-Files, reviews materials for completeness, consults with quadrant Planner IV, and creates SFPPermit record with 'submitted' status.
- EP PPA/intake planner reviews environmental materials for completeness.
- CP Planner Tech issues NIA letter, if additional materials are needed.
- PS Sponsor submits additional materials.
- CP If CP Planner Tech deems application complete, status changed to 'accepted' in SFPPermit and status emailed to sponsor.

3 Preliminary Application Review
90 DAYS

- PS Provides additional information, as needed.
- CP Current planner assigned. Conducts comprehensive plan check, including SDAT, UDAT, and RDAT. Coordinates Plan Check Letter with EP.
- EP Environmental coordinator and supervisor assigned. Environmental coordinator confirms need for technical studies, technical planners are assigned, SOWs for some technical topics are reviewed and approved.
- CP Planner issues Plan Check Letter based on preliminary review.

4 Proposed Project Refinement
30 DAYS

- PS Refines project based on Plan Check Letter(s).
- CP Confirms comments from Plan Check Letter(s) have been incorporated.
- EP Confirms comments from Plan Check Letter(s) have been incorporated.
- CP and EP planners deem project description stable. EP planner inputs type of environmental document; CP planner consults with Commission Affairs for target hearing date and inputs target hearing date into SFPPermit.

7 Closeout Actions

- CP Finalizes updates to project description and data tables in SFPPermit per final action. Emails sponsor with upcoming major milestones (required now, site permit, each addendum).
- EP Prepares FEIR, if needed, closes out ENVV record.

6 Hearing Preparation Tasks

- CP Finalizes staff report, CEQA findings (if required), conducts required noticing, attends entitlement hearing.
- EP Prepares for and attends EIR Certification hearing, if applicable.

Possible Hearings

- Rec Park Capital Committee/Full Commission
- Historic Preservation Commission
- Other Commissions (Port, MTA, etc.)
- BOS Land Use Committee/Full Board

5 Project Analysis
6 TO 22 MONTHS

- CP Conducts detailed plan check, design review, starts drafting staff report.*
- EP Ensures public outreach has been conducted.
- CP Keeps interested parties abreast of project status.
- EP Reviews project description.*
- CP Conducts scoping of environmental review document, technical studies.
- EP Conducts environmental noticing.
- CP Manages preparation and review cycles of technical studies and environmental documents.
- EP Confirms all environmental fees are paid
- CP Manages publication of draft environmental document and public comment process (if applicable).
- EP For EIRs, prepares and attends hearing on draft EIR and manages preparation and review cycles of response to comments document.
- CP Confirms all environmental fees are paid
- EP Project is ready for EIR certification and/or approval hearings.

*If the PD changes, hearing schedule may change.

- Could it alter environmental impact conclusions?
- Does it require a new environmental technical study?
- Would it require a new entitlement?
- Does it result in significant redesign of massing?

Go to Project Coordination to confirm hearing date change

CP and EP planners coordinate on the following:

- project description changes, including updates to SFPPermit data
- Section 148 (Wind)
- Section 295 (Shadow)
- Schedule/confirm hearing date with Commission Affairs
- Project team changes (internal/external)
- Newly identified impacts
- Record requests
- Pre-approval hearings (i.e., Recreation and Park Department; Historic Preservation Commission; Architectural Review Committee)

The California State Density Bonus Law (passed in the 1970s but now seeing more frequent use), the Housing Accountability Act, and the Housing Crisis Act of 2019 (SB-330). These state laws offer the only true ministerial approval paths for development in San Francisco. Within local authority, San Francisco has updated its local Inclusionary Affordable Housing Program, introduced bonuses for increased affordability with HOME-SF, embraced ADUs, and implemented ministerial approval for 100% Affordable Housing projects. Following the issuance of Mayor Edwin Lee's Executive Directive 17-02, Planning undertook a comprehensive process improvement effort⁵⁵ to enhance regulatory and development review functions and streamline the approval of housing projects.⁵⁶

Potential Regulatory Reforms to Support Housing Development and Affordability

In addition to the actions already taken, there remain opportunities to evolve local development regulations to increase housing capacity, diversify supply, improve mobility, support production, and speed/ease project approval processes. Such changes would be necessary to implement all or part of the concepts for future housing development explored earlier in the report. Potential strategies include:

- Consider future changes to development regulations through an Equity Lens. Such a lens could include analyzing and seeking community feedback on what groups benefit, are placed at risk, or might be disproportionately impacted by potential changes to land use regulations. Examples of equitable land use policy approaches include:
 - » Prioritize desegregation and expansion of housing opportunities throughout the city.
 - » Emphasize community stabilization along with creation of new housing in land use planning and housing policy in neighborhoods with concentrations of people of color and people with lower incomes.
 - » Continue to expand input from communities of color and low- and moderate-income people in land use planning and housing policy making.

- Increase zoned housing capacity through changes to zoning controls, for example:
 - » Area plans with programmatic EIRs and/or expansion of existing bonus programs to increase housing capacity in low-density neighborhoods.
 - » Shift from unit-based to form-based density controls citywide.
 - » Condition future institutional growth on housing production as part of Institutional Master Plans (IMPs) for large institutions like universities.
- Streamline and simplify the project approval process, with an emphasis on additional streamlining for projects that provide affordable housing:
 - » Modernize the Planning Code;⁵⁷
 - » Expand administrative/ministerial review and approval;
 - » Reform Discretionary Review.

By continuing to innovate San Francisco's system of development regulations, the City can more effectively address housing affordability while protecting health, welfare, environmental sustainability and resiliency, and other key city priorities.

Affordable Housing Funding, Production, and Preservation

San Francisco currently has about 33,000 permanently affordable housing units. These units have been built over decades with a combination of federal, state, and local programs. The HAS looks at strategies to increase affordable housing by 1,667 units and preserve 1,100 units each year through various policies and investments. Key topics include:

- Public funding to produce and preserve housing.
- Production trends in affordable housing including both publicly subsidized affordable housing and inclusionary housing leveraged through market-rate development.
- Preservation of affordable housing and different types of preservation investments.
- Production of ADUs which are more likely to be affordable due to size and lower construction costs but are not required to be affordable at a particular income level.

The section closes with policies to produce more affordable housing- in particular the need for sustained, substantial funding.

Affordable Housing Funding

Producing and preserving affordable housing is primarily accomplished by stitching together a complex array of subsidies and financing. Subsidies help cover the gap between the cost of building or acquiring housing and what lower income households can afford to pay. Nearly all available funding sources at the federal, state, and local levels serve households earning 80 percent of Area Median Income (AMI) or less. Very few sources are available for moderate- and middle-income households. In addition, providing affordability for the lowest income residents or those who need more services requires additional subsidy.

Low Income Housing Tax Credits (LIHTC) are the primary funding source for affordable housing

development and rehabilitation, offering a federal tax credit in exchange for private equity investment in affordable housing projects.

Federal funding for affordable housing (Section 8, HOME, CDBG, and Affordable Housing Program) has been flat or in decline over the last two decades. Federal Housing Choice Vouchers (known as Section 8) help 9,500 San Francisco households afford rent in the market. Vouchers are limited by lack of federal funding and are estimated to be available to about a quarter of income-qualifying renters nationally.⁵⁸

State funding has increased with the 2017 and 2019 housing packages and voter approval of a state affordable housing bond that funds local affordable housing development.

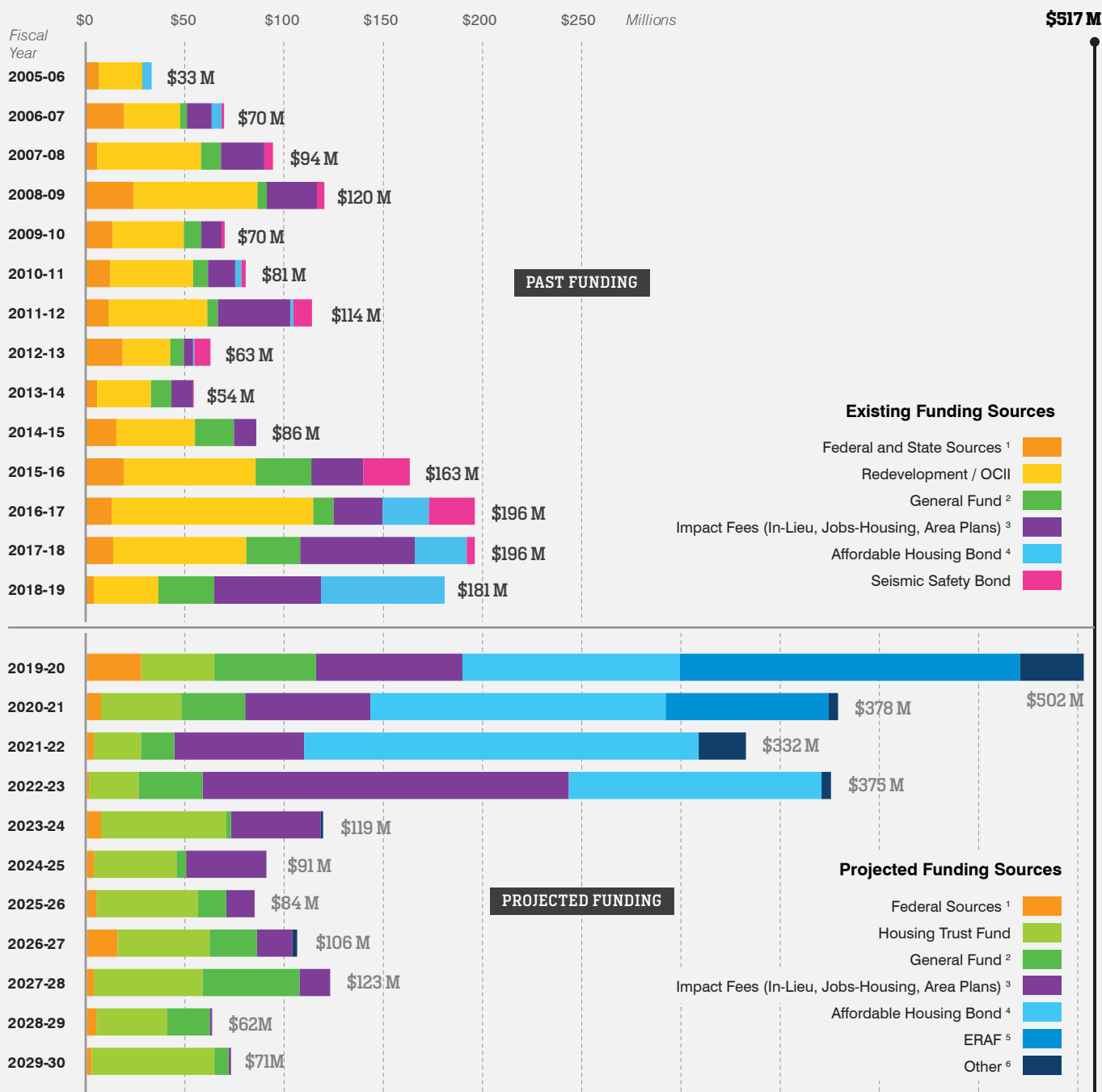
Local funding is crucial to leverage state and federal funding sources, which typically do not cover all development costs. San Francisco has various sources of local funding including:

- **Affordable housing bonds** approved by voters;
- **General Fund** revenue invested per voter mandates and allocations by elected officials;
- **Development impact fees**, including in-lieu fees paid by housing developers through the Inclusionary Housing Program, jobs-housing linkage fees paid by developers of commercial space, and area fees collected in special zoning districts;
- **Former Redevelopment funding** already committed in enforceable obligations for affordable housing before Redevelopment ended and now administered by the Office of Community Investment and Infrastructure (OCII).

Historically, San Francisco's annual affordable housing funding has fluctuated from a low of \$33 million to a high of nearly \$200 million recently, varying based on economic and political conditions.

San Francisco will need approximately \$517 million in annual funding in today's dollars to produce 1,667 affordable units per year and preserve 1,100 more units. See the Technical Appendix for more on affordable housing costs.

FIGURE 14.
Affordable Housing Expenditures by Source Past (2006-2019) and Projected (2020-2030)



Note: OCII will fund about 2,500 new affordable units on specific sites to meet its enforceable obligations in coming years and these units are accounted for in the 50,000 unit, 30-year total. Redevelopment and OCII are included in past expenditures above because they were the main affordable housing funding source. Projected expenditures by funding source shown above and the \$517 million estimate of annual funding need are for MOHCD-funded affordable units and do not include OCII.

(1) Includes HOME and CDBG
 (2) Includes land sales and Certificates of Participation (COPs)
 (3) Includes area-specific fees, inclusionary housing fees, and jobs-housing linkage fees
 (4) Includes 2015 Proposition A and 2019 Proposition A housing bonds In 2019
 (5) The Board of Supervisors passed an ordinance to establish the use of excess Education Revenue Augmentation Fund (ERAF) revenue for affordable housing production and preservation
 (6) Includes Citywide Development Agreements, Condominium Conversions fees, Low and Moderate Income Housing Asset Fund (LMIHAF), and other project-specific revenue)

Source: Mayor's Office of Housing and Community Development, San Francisco Planning Department, and Strategic Economics, 2020.

- While local funding is projected this year to nearly meet the estimated funding target, in future years funding declines- especially past 2023.

In 2019 to 2020 San Francisco will invest about \$500 million in affordable housing production and preservation, slightly below the \$517 million in public funding estimated to be necessary to meet affordable housing production and preservation targets. The 2019 to 2020 is a funding peak after a period of increasing investment in affordable housing. Over the last 15 years, however, San Francisco had averaged close to \$110 million per year in funding for affordable housing. Looking toward the future, San Francisco’s funding for affordable housing looks strong through 2022 to 2023 thanks to various sources of funding. However, funding will drop far below the amount necessary to achieve housing targets after 2023 without the creation of additional funding sources.

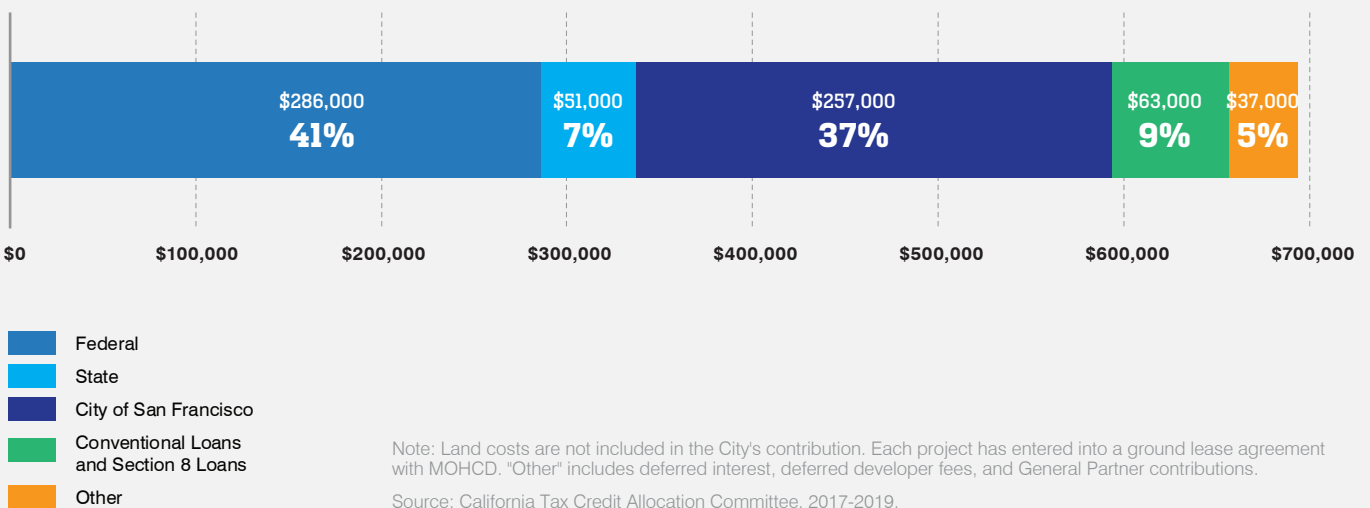
How Funding Comes Together for Deed-Restricted, 100% Affordable Housing

Based on a review of projects that received tax credit funding from 2017 to 2019, the total development cost for affordable housing in San Francisco is estimated at about **\$693,000 per unit.**⁵⁹ Major funding comes from various sources:

- **Federal sources**, especially LIHTC, are the largest funding source for affordable housing at 41%.

- **San Francisco’s local funding was \$257,000** per affordable unit or 37% of total costs. Local funding as a share of total sources is higher in San Francisco than other Bay Area cities.
- **State sources** such as the Affordable Housing and Sustainable Communities program and Multifamily Housing Program have provided 7% of funding and will likely see some increase.
- **Conventional loans from private banks** provide permanent financing to affordable housing developments. Loans are backed by rents and at times supplemented by project-based vouchers.
- **Publicly-owned land and City purchases of land** have provided the main sources of housing development sites, helping to lower development costs and promote permanent affordability. Nearly all the sites where new affordable development occurred from 2017 to 2019 were owned by MOHCD or MOHCD provided an acquisition loan. Acquiring privately-owned sites for affordable housing development would add a cost of approximately \$100,000 per unit. Maximizing use of public land to support affordable housing, recognizing that there are competing public needs, could help lower affordable housing costs. In addition partnering with nonprofit institutions with available land could offer an additional path to acquire sites for affordable housing more cheaply.

FIGURE 15.
Funding Stack for a Sample of Recent Affordable Housing Projects in San Francisco



Affordable Housing Production Trends

New affordable housing is produced in two main ways:

- 1. 100% affordable housing projects**, funded by combining various public subsidies (as described above) and
- 2. Inclusionary affordable units** produced by private housing developments.

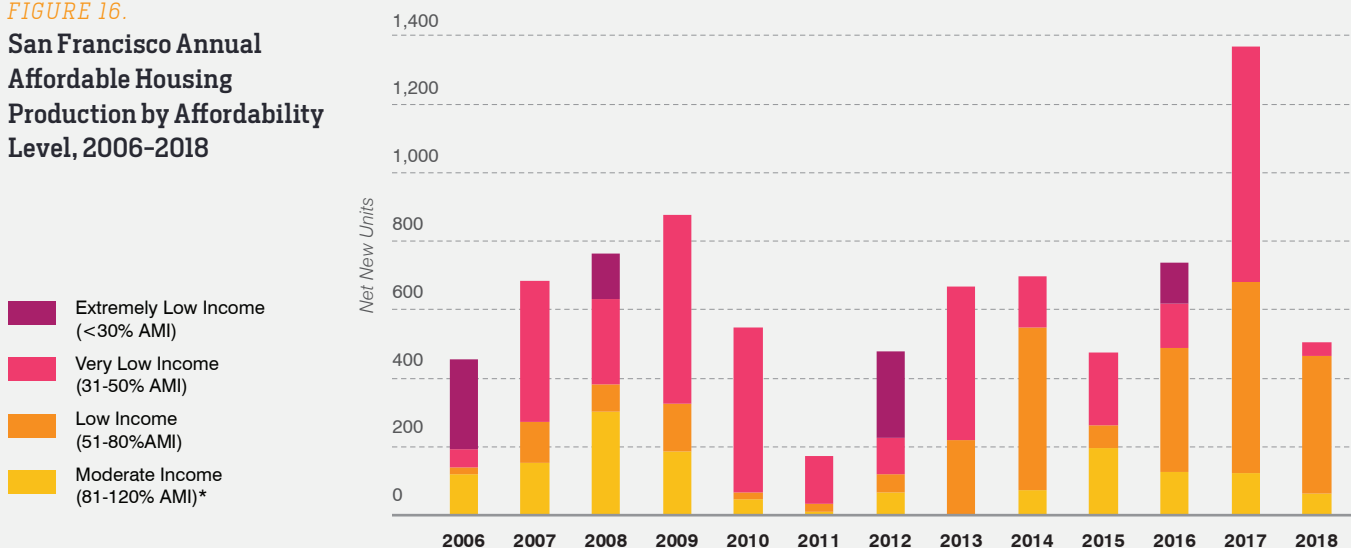
From 2006 to 2018, San Francisco produced 8,425 affordable housing units, which represented about 24% of all new housing production from 2006 to 2018.⁶⁰

- On average 436 homes in 100% affordable buildings were built per year, about 2/3 of the total.
- Private development produced on average 210 Inclusionary affordable units per year though private development also produced 100% affordable units through in-lieu fees paid.
- Affordable housing production, both 100% affordable and inclusionary, increased as the economy recovered after 2011 and more funding was provided and private investment increased.

The majority of affordable housing has been built in San Francisco’s eastern neighborhoods, such as the Mission, the Tenderloin, South of Market, the Western Addition, and Bayview Hunters Point. Furthermore, because most new market-rate development has occurred in the eastern neighborhoods, the majority of new inclusionary units are also in these areas. Most of the affordable housing built from 2006 to 2018 target very low- and low-income households. 43% of new affordable homes are affordable at very low incomes, and 30% are affordable at low incomes. ELI and moderate-income units represented 9% and 17% of new homes, respectively.

Permanent Supportive Housing (PSH) serves people exiting homelessness who have both housing and service needs. For most PSH residents, there is a significant gap between what they can afford to pay and the cost of developing the unit and operating on-site social services. The City of San Francisco’s Local Operating Subsidy Program (LOSP) helps address the operating funding gap by providing additional operating subsidy for PSH units in 100% affordable housing. The City invested about \$9.2 million in 2018 to 2019 from the General Fund in LOSP, or \$7,900 per unit.⁶¹ The City plans to nearly double the number of LOSP PSH units over the next four years and funding will increase to over \$25 million, not including services. Without a specific funding source, LOSP’s impact on the City’s General Fund will continue to grow over time.

FIGURE 16.
San Francisco Annual Affordable Housing Production by Affordability Level, 2006-2018

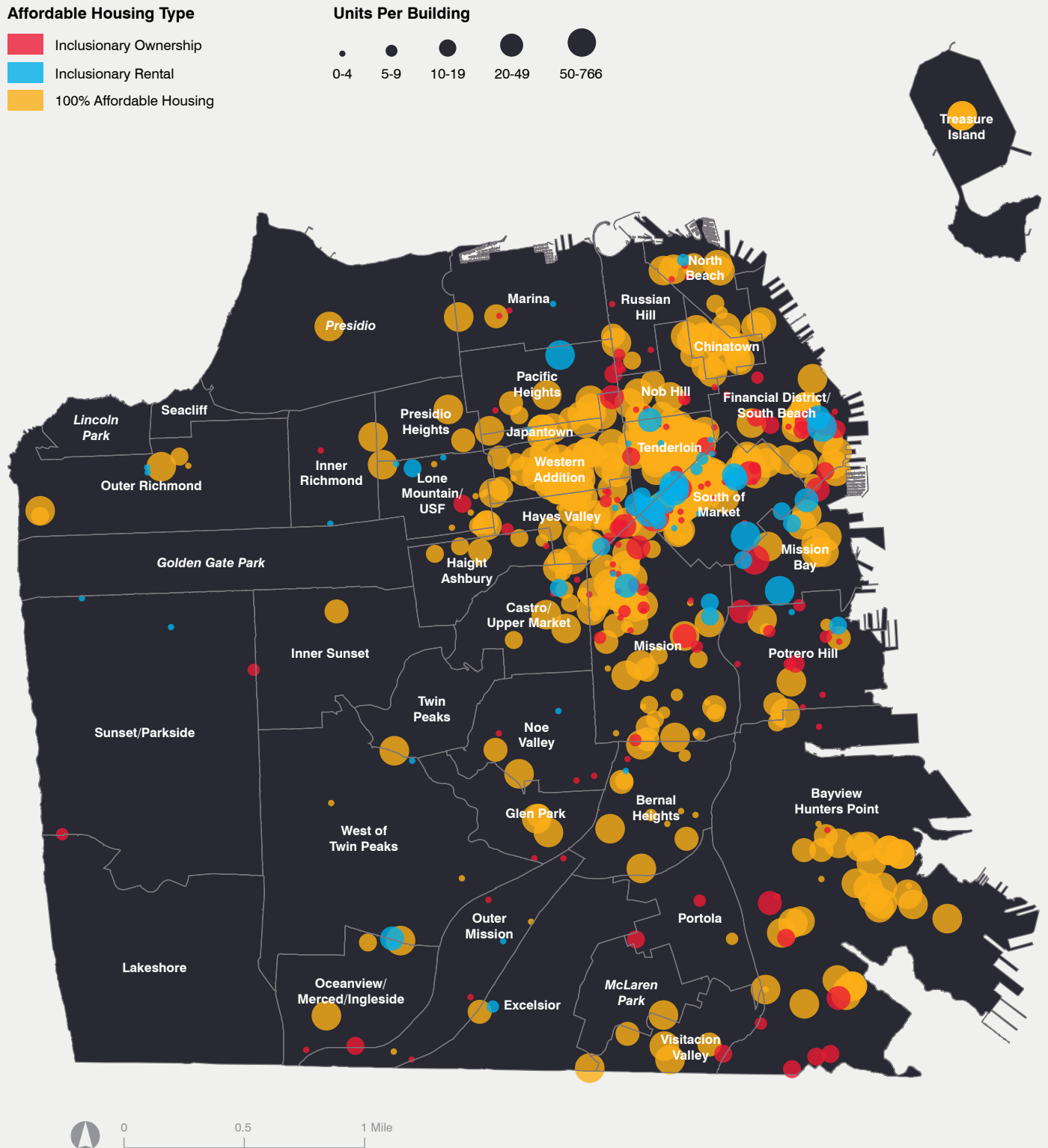


*Does not include new or legalized ADUs.

Source: City of San Francisco Planning Department Housing Inventory Reports, 2006 to 2018; Strategic Economics, 2020.

FIGURE 17.

Location of Affordable Housing Units in San Francisco by Type and Number of Units Per Building, 2018



San Francisco's Inclusionary Housing Program

has gone through multiple iterations in the last decade. Developers may choose from several options, including building affordable units on-site, building affordable units off-site, or paying an in-lieu fee. Specific requirements vary by building size, tenure, and neighborhood. Because requirements have changed over time, and because the production of inclusionary units depends on market-rate development activity, the total number of inclusionary units produced varies from year to year. When market-rate development dropped significantly during the Great Recession, very few inclusionary units were produced. More recently, San Francisco's Inclusionary Housing Program has produced hundreds of inclusionary units and contributed in-lieu fee revenues. However, as the requirements are escalating, and development costs continue to increase, the financial feasibility of market-rate development may be challenged (see Development Feasibility and Costs Section).

Preservation of Affordable Housing

From 2006 to 2018, San Francisco preserved about 5,100 affordable units. There are two major types of housing preservation activity in San Francisco:

Rehabilitation and preservation of existing 100% affordable projects focuses on ensuring the long-term affordability and rehabilitation or, if necessary, rebuilding of existing subsidized affordable housing.

- **Public housing units** were built from the 1940s to the 1970s but over time federal operating funding was cut and building conditions worsened. Nearly 4,000 public housing units have been rehabilitated and rebuilt and transferred to nonprofit ownership in recent years through local and federal programs including the Rental Assistance Demonstration (RAD) program and HOPE SF. The remaining public housing sites, Potrero and Sunnydale, which include multiple buildings and hundreds of units spread over several acres, will be rebuilt in coming years through the locally funded HOPE SF program. Current residents will remain on-site as buildings are built, avoiding displacement caused by earlier public housing rebuilding. Because both sites require major infrastructure investment, estimated per unit local funding will be higher at \$399,000.

- **US Department of Housing and Urban development (HUD) assisted** housing built from the 1960s to the 2000s includes thousands of units including some with expiring affordability restrictions and substantial rehabilitation needs. Federal funds are limited and HUD housing will require local public investment to maintain these units over the long term. Per unit costs for preservation of HUD and MOHCD portfolio units are estimated at an average of \$110,000 per unit.
- **MOHCD portfolio preservation** helps to maintain or rehabilitate existing affordable housing built in prior decades. MOHCD oversees an extensive portfolio of over 25,000 units including buildings it has funded as well as buildings formerly overseen by the San Francisco Housing Authority and former Redevelopment Agency.

Acquisition of privately-owned, unsubsidized multifamily housing for conversion to permanently affordable housing.

Preservation of this type helps remove apartment buildings serving lower income renters from the speculative market, maintaining affordability and stabilizing tenants. San Francisco's **Small Sites Program (SSP)**, created in 2014, provides permanent financing to convert multifamily rental buildings serving low- and moderate-income renters with 5 to 25 units to permanently affordable housing. As of late 2019, a total of 308 units in 38 buildings have been acquired and preserved for very low- and low-income renters.⁶² SSP units have been concentrated in the Tenderloin, Mission/Bernal Heights, and Excelsior. SSP activities could expand to more neighborhoods in the city's west side (Districts 1, 4, and 7).⁶³

While total development costs for SSP are lower than for new 100% affordable housing units (approximately \$497,000 per unit), the City's local funding contribution is higher.⁶⁴ The local funding was about \$339,000 per unit, or 80 percent of total development costs.⁶⁵ There is no dedicated funding source for SSP, but the City has used existing funding sources (including in-lieu fees, affordable housing bonds, and the Housing Trust Fund) for the program.

ADUs

New or legalized secondary units added to existing structures, also called ADUs, are another housing type that can contribute to housing affordability city-wide. The City of San Francisco plays an important role in supporting property owners but does not currently fund the production of ADUs. Although ADUs are not deed-restricted or subsidized, they may be affordable to moderate income households. However, rents are ultimately set at the discretion of property owners.⁶⁶

From 2006 to 2018, nearly 800 ADUs were produced or legalized citywide, equivalent to about 60 ADUs produced or legalized annually. The last few years have seen an upward trend in ADU production or legalization, due to recent efforts at the state and local level to facilitate ADU production and legalization from a regulatory and financial perspective.

Policies to Sustain and Expand Affordable Housing Production and Preservation

Sustained funding for affordable housing is key to achieving the City's production and preservation targets. Specific funding proposals will need to be developed by policy makers through a community process. For example, the City could meet funding needs with approaches such as:

- As available, dedicate general fund revenue to fund affordable housing and homeless services, for example by continuing to use local revenue increases and windfalls such as ERAF funds (Educational Revenue Augmentation Fund).
- Work to resolve the impasse over a gross receipts tax increase for affordable housing and homeless services from 2018's Proposition C through a legal agreement or an additional ballot measure.
- Continue to place affordable housing bonds on the ballot as part of a regular capital funding cycle to generate affordable housing funding (affordable housing has been added to the City's capital planning process along with other infrastructure, a prerequisite to be part of the regular bond cycle).

San Francisco could consider funding sources used in other cities to fund affordable housing.

- Washington D.C. dedicates a set portion of property transfer tax revenue to affordable housing (currently transfer taxes in San Francisco are dedicated to other budget priorities and transfer tax revenue is volatile, rising and falling with real estate market activity).
- Vancouver has implemented a levy on unoccupied homes, raising millions of dollars in revenue and potentially returning vacant homes to the housing market.
- A number of cities including New York offer tax abatements to incentivize inclusion of affordable housing in market rate developments. In addition, New York has a local income tax that helps to fund its general fund, including housing investments. Currently these approaches are preempted by California state law. San Francisco could work with other cities and state elected officials to make changes to state law to allow tax abatements or a local income tax to fund affordable housing.
- The city could also consider and study the option of creating a public bank to help finance affordable housing, among other public goods, as is being discussed and studied in other cities.⁶⁷

San Francisco can also continue to support regional, state, and federal initiatives to fund affordable housing, rent assistance, and homeless services.

- Work with other cities and regional organizations to pass a regional housing funding bond.
- Continue to advocate for additional state and federal funds to provide affordable housing and address homelessness.

As with multifamily housing more generally, increased affordable housing production would be helped by policy changes that lower development costs and expand where multifamily housing can be built. These policies are discussed more in the preceding policy sections on Housing Development Feasibility and Costs and Regulation of Housing Development.

Tenant Protection, Housing Stabilization and Homelessness Services

While new housing development and production and preservation of permanently affordable housing are essential long term approaches to improving affordability, San Francisco's policies and programs to protect tenants, stabilize residents in current housing, prevent homelessness, and provide shelter and supportive housing are immediate and direct approaches to address housing affordability and instability for our most vulnerable residents. These policies and programs can help people who have lost their housing and help residents with very low-, low- and moderate-incomes, especially those at-risk of displacement, remain in their communities.

This section builds on the Community Stabilization Initiative Report and Inventory of policies and programs. The Community Stabilization Initiative includes an assessment of the City's efforts and identifies key priorities for future consideration to enhance existing programs or to explore the implementation of new programs. The policy priorities presented here include services, subsidies, and data reporting and analysis. Given the wide range of policies analyzed and the limited scope and budget of both the HAS and Community Stabilization projects, it was not possible to identify specific targets for the programs discussed below. However, the underlying need, purpose, design, and, where possible, cost have been analyzed (more details are available in the accompanying white paper).

In addition to policies related to protection and stabilization, this policy summary presents key goals and policy priorities from the Department of Homelessness and Supportive Housing (HSH) 5-year Strategic Framework that guides the City's efforts to address homelessness.

Existing Tenant Protection and Housing Stabilization Policies and Programs

The City has strong programs to protect existing residents. They have helped retain our income and racial diversity and protected our most disadvantaged communities.

Rent Control and Just Cause Eviction: Most rental housing in San Francisco is subject to rent control, providing relative affordability and stability to a large share of the city's low- and moderate-income households.⁶⁸ In general, the City's Rent Control Ordinance applies to buildings that have two or more units and were certified for occupancy prior to June 13th, 1979. The City also has Just Cause Eviction rules for all tenants that limit evictions to specified causes, broadly classified as at-fault (for example failure to pay rent or breach of the terms of a lease) and no-fault (for example owner move-in or Ellis Act evictions). Local rent control is limited by the state Costa-Hawkins law passed in 1995.

Tenant Services: There was an average of 1,585 eviction notices filed at the Rent Board over 2017 and 2018. Of these, 570 were no-fault (capital improvement, condo conversion, demolition, owner move-in, or Ellis Act) eviction notices in 2017.⁶⁹ To address these challenges, San Francisco manages numerous eviction-related legal services; tenants rights counseling, education and outreach; mediation services; and rental assistance to support and protect tenants.

Housing Stabilization: San Francisco has several policies in place to preserve rent-controlled housing and protect current residents including demolition controls, condominium conversion controls, Short-Term Rental regulation and enforcement, Single-Room Occupancy (SRO) protections, and the Small Sites Program.

Potential Protection and Stabilization Policies and Programs

Despite strong tenant protection and housing stabilization policies in the city, additional efforts are needed to support our residents at risk of displacement. Based on input from community-based organizations and residents and in close coordination

with City agencies and the Mayor's Office, the following potential protection and stabilization policies and programs were identified in the Community Stabilization Initiative.

Tenant Protections and Services

A Housing Inventory or Registry would provide information about each housing unit's rental status, owner, tenant(s), vacancy, property management, rent amount, unit and property characteristics, rental terms and conditions, and annual registration fee.⁷⁰ This Inventory could provide insights into decontrol of units over time or potential vacant unit tax. Planning and the Rent Board could collaborate to establish and maintain a registry.⁷¹

Tenant Services Expansion could help more tenants in need through the following: legal defense; counseling, education, and outreach; and tenant and landlord mediation services to support and protect tenants. To expand tenant services, the City could increase funding for local legal aid partners to do impact litigation and affirmative legal work. Mediation services could serve tenants who receive eviction notices for minor lease violations. The City could shift from a complaint-based system to a proactive and affirmative enforcement system.

Rental Assistance is offered to tenants who are either severely rent burdened, who are facing an unexpected crisis and cannot make rent, or who would not otherwise income-qualify for affordable housing. An expanded rent subsidy program for specific underserved populations and rent burdened households could reduce the number of displaced households at a lower cost than producing a new unit over the short term.

Strengthening Local Authority to Protect Tenants in collaboration with other cities, the state, and the public, building on Assembly Bill 1482, the City could support state legislation to reform Costa-Hawkins and the Ellis Act to allow local jurisdictions to adjust local rent and eviction controls to meet local challenges.

Stabilize and Grow Existing Housing Stock

Preservation of Unauthorized Units (UDUs) would help to retain apartments added to existing homes

or buildings without legal permits. UDUs are typically created from storage rooms, garages, or basements (30,000 to 50,000 units estimated in 2008). UDUs are more likely to be affordable to low- and moderate-income renters. Broadening the City's policy to retain UDUs, adjusting existing codes and programs, exploring financing tools, and expanding data sources may stem the loss of illegal units. The City could support a loan program to assist low-income homeowners to bring illegal units up to code.

ADU programs could help to incentivize the addition of housing units to existing single family homes. ADUs provide more homes of smaller sizes and lower construction costs. While the number of ADUs is growing, lack of financing options can make it difficult for moderate and low-income property owners to utilize the program. An ADU incentives pilot program would identify qualified low- and moderate-income homeowner applicants, assess their properties for ADU potential and identify loan or financing programs.

Preserve Single Resident Occupancy Hotels (SROs) and other housing types serving lower income renters through preservation acquisitions, tenant and owner outreach, as well as enforcement.

Expand housing development options to support intergenerational and growing household needs, including multifamily housing and density adjustments. (See the residential growth concept and housing feasibility and development regulation sections for related information)

Stabilizing and Supporting Communities

Expand Outreach and Services to Reverse Impacts of Discrimination and Displacement particularly for Black people and other groups that have suffered due to government actions and private discrimination. The City could expand outreach to communities that have been displaced to raise awareness of and facilitate applications to housing programs including affordable rental and ownership programs. The City could explore additional preferences for affordable housing to help address the long-term impacts of historic discrimination as well as expand culturally competent services to help people at-risk of displacement, for example renters in public and affordable housing and rent-controlled housing.

The Cultural Districts initiative aims to bring resources to stabilize communities facing displacement, and to preserve, strengthen and promote cultural assets and diverse communities. The recently formalized program of cultural districts created the opportunity for community-led cultural district processes to craft Cultural History, Housing and Economic Stabilization Strategies (CHHESS) for each district and move towards implementation. There is an opportunity to build program capacity to do more in existing districts and potentially expand to areas where the program might be needed in the future. Affordable housing investments can also be coordinated to strengthen cultural district communities.

Homelessness Services and Supportive Housing Programs

In 2016, the City created the Department of Homelessness and Supportive Housing (HSH) to address the ongoing issue of homelessness in the city. With the creation of HSH, the City created a Five-Year Strategic Framework⁷² which includes

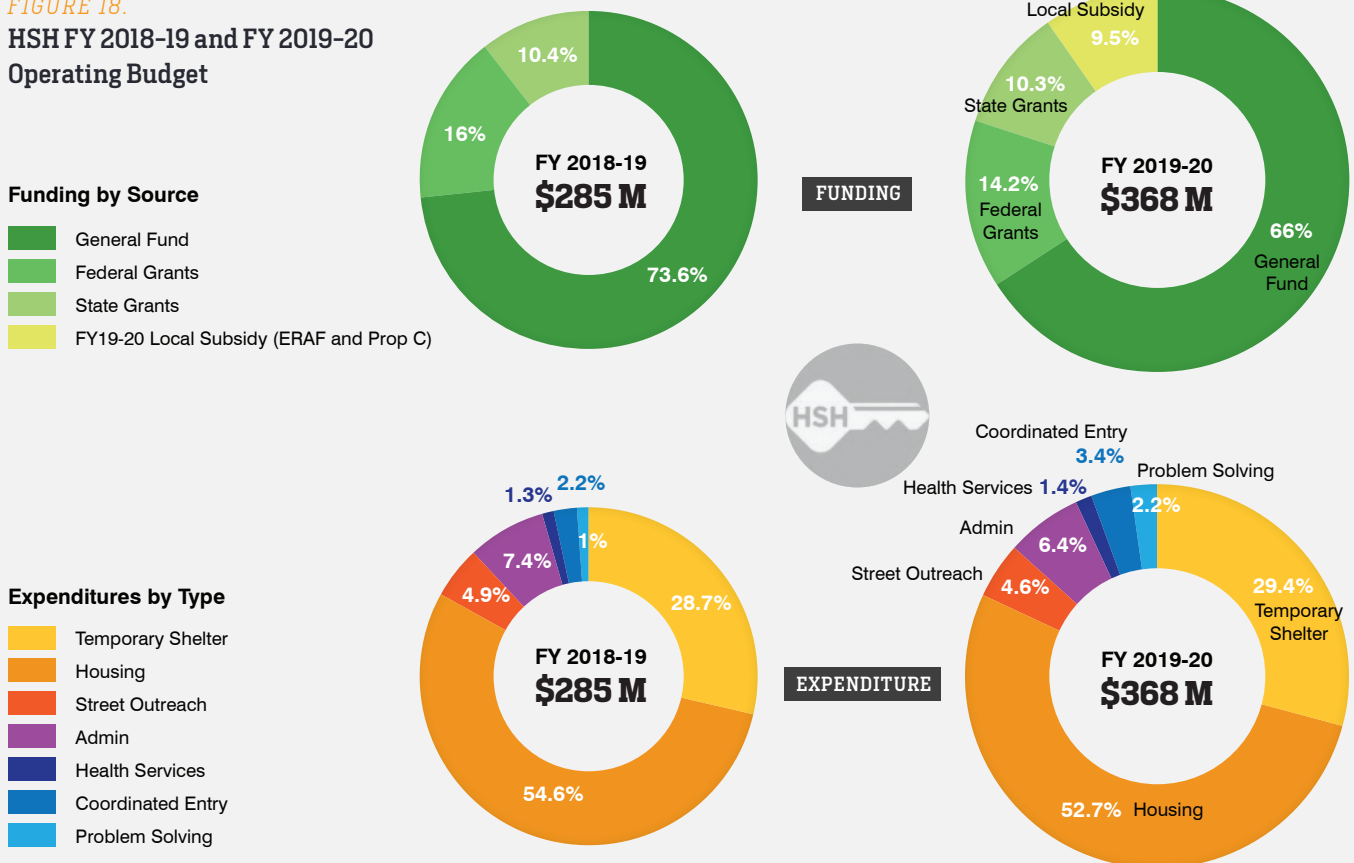
metric-driven goals:

- End family homelessness by December 2022
- Reduce chronic homelessness 50% by December 2022
- Reduce youth homelessness 50% by December 2022
- Add 1,000 Permanent Supportive Housing (PSH) units from 2019 to 2021
- Add 700 temporary shelter beds from 2019 to 2021

There has been significant expansion of temporary shelters, including avigation centers, in recent years. Since 2018, the City added 709 new shelter beds and 475 more beds are in the pipeline to open in 2020.

HSH's budget has grown to expand housing and services, with \$285 million invested in fiscal year 2018 to 2019 and \$368 million in 2019 to 2020. Federal and state funding provide approximately a

FIGURE 18.
HSH FY 2018-19 and FY 2019-20 Operating Budget



quarter of HSH funding with local funding providing the remainder of the budget. Local funding from the City's General Fund was over \$240 million in 2019-2020. A majority of HSH funding is dedicated to ongoing housing subsidies and the operation of permanent supportive housing for formerly homeless households. Expansion of affordable housing development, as described in the HAS, would also help expand permanent supportive housing and help more people exit homelessness.

The City's core programs to prevent homelessness and provide supportive housing include:

- **Permanent supportive housing:** HSH provides permanent supportive housing (PSH), combining housing and support services, to formerly homeless people with complex medical, mental health, and/or substance use diagnoses. HSH secures PSH units in part through master leases in buildings throughout the city. HSH also funds PSH units in MOHCD-funded affordable developments through the LOSP program, subsidizing operations and services for formerly homeless people.
- **Rapid Rehousing program (RRH)** is designed for a wide variety of individuals and families. It provides time-limited rental assistance and services for people leaving homelessness. The goals are to help people obtain housing quickly, increase self-sufficiency, and remain housed. Rapid Rehousing includes housing identification, temporary rent assistance, and case management.
- **Temporary shelter:** Navigation Centers and existing shelters provide temporary shelter for homeless individuals and families on the street. HSH has opened eight Navigation Centers since 2015, and six are currently in operation.
- **Street outreach:** The SF Homeless Outreach Team (HOT) is funded by HSH through nonprofit Heluna Health. HOT services are offered from morning until 10 pm on weekdays with services also available on weekends. HOT includes dispatch and outreach of skilled teams, working neighborhood beats to address different needs of homeless individuals in the city. Clients can also access a walk-in Behavior Health Access Center and Treatment Access Program. The Healthy

Streets Operation Center (HSOC) collaborates with other City departments to address conditions of living on the streets and includes the outreach-focused Encampment Resolution Team (ERT).

- **Healthcare and support services:** The City offers a range of services to meet health and support service needs of homeless people. The City's Sobering Center provides a safe place for rest and assessment for people who are intoxicated on the street. Whole Person Care is a partnership between HSH, the Department of Public Health (DPH), and the Human Services Agency (HSA) to provide care for people identified as high users of multiple systems (such as hospitals or shelters). Project Homeless Connect activates volunteer to connect with anyone experiencing homelessness in San Francisco.
- **Coordinated entry** organizes the Homelessness Response System with a common population specific assessment that directs people to appropriate services based on three categories 1) length of time homeless, 2) vulnerability, and 3) barriers to housing.
- **Problem solving** addresses and prevents homelessness by helping people to: return immediately to housing without having to enter temporary shelter or a housing program and utilizes safe and available permanent and temporary housing options. It may offer a range of one-time assistance, including eviction prevention, legal services, relocation programs (Homeward Bound), family reunification, mediation, move in assistance, and flexible grants to address issues related to housing and employment.
- **The Housing ladder** offers opportunities for residents of PSH or RRH to move outside of the Homelessness Response System (e.g. the Moving On Initiative).

In addition to the above programs, HSH also works with other City agencies, such as DPH and the Fire Department, to offer programs for homeless persons and/or families. For more information on affordable housing and LOSP, see the Affordable Housing Funding, Production, and Preservation section.

Conclusion

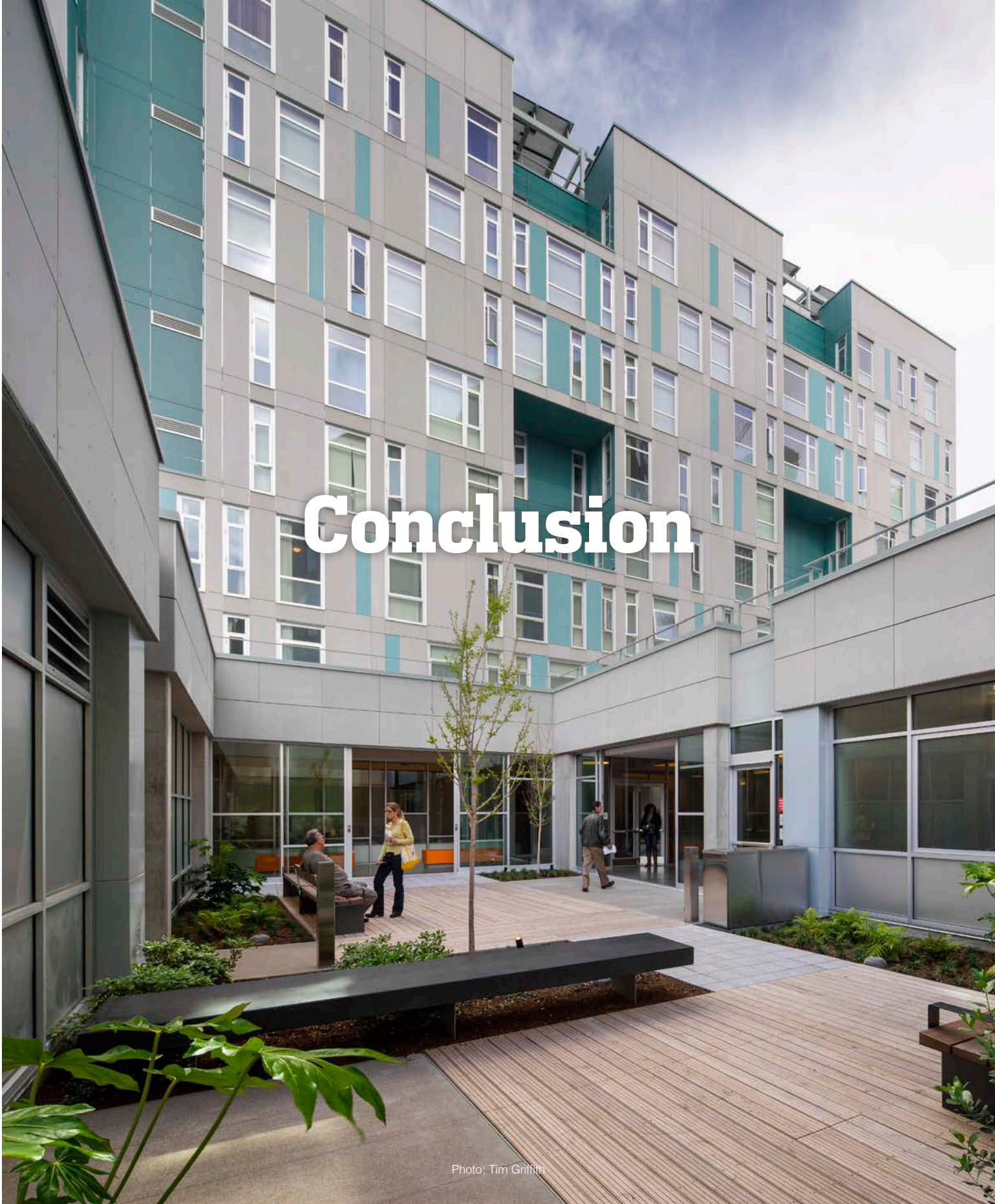


Photo: Tim Griffith

The HAS project offers a comprehensive approach to improve affordability in San Francisco through a range of strategies to achieve the city's housing targets of producing 5,000 new units with one third affordable and preserving 1,100 existing units as permanently affordable housing annually for the next 30 years. Increased housing production and sustained investment in affordable housing production and preservation are essential ways to improve housing affordability over the long term. At the same time, protection and stabilization programs and homeless services are essential to assist our most vulnerable residents with the pressing housing challenges of today.

Building on the HAS, the analysis and outreach completed will inform the update of the Housing Element for 2022. The HAS will also support the development and implementation of citywide housing policy and neighborhood-level housing planning initiatives.

The three concepts for future housing development presented in the HAS illustrate that the city can accommodate 150,000 housing units by focusing on the east side, the transit corridors, the residential districts, or a combination of these three concepts that could be stronger than just one approach. Residents and policy makers can consider the opportunities and challenges of each concept to select land use policies that achieve the city's overall housing targets while addressing community needs. Each land use concept would require both public and private housing investments.

In 2020 the City's expected affordable housing funding is very close to the needed average of \$517 million per year. While this year is much higher than past or expected future trends, it illustrates the potential for the city to address the production and preservation of affordable housing. Public funding is complemented by the funding coming from new private investment to deliver the targeted housing units.

Housing development also requires public investments in infrastructure, including schools, public spaces, and transit and other transportation infrastructure in particular. The City is working to improve transportation infrastructure and policies to meet the needs of a growing city, improve mobility for residents, workers, and visitors, and lower GHG emissions. The City is also identifying long term transportation investments and strategies to address current and future transportation needs.

Given ongoing displacement pressures in San Francisco, the city will need continuing investment in tenant services, rental assistance, and housing preservation, particularly in communities of color. In addition, the City's housing investments must be coordinated with efforts to create supportive housing and provide shelter and services to formerly homeless people as well as those currently unhoused.

Reaching housing targets will require increasing housing opportunities across neighborhoods along with efforts to lower development costs including simplification of the entitlement process and reduction of construction costs. Increasing certainty and lowering risk through the entitlement process improvements can support private investment, particularly for small multifamily buildings. Local and regional economic strategies to expand the construction workforce and introduce new construction technology can reduce construction costs to make more housing construction and rehabilitation projects viable.

The implementation of any combination of land use concepts and housing strategies depends on the ability of our various communities, housing leaders, and policy makers to support an extra effort to bring the policy changes and public and private resources that can allow San Francisco to address housing affordability at a comprehensive scale and over the long term.



Summaries of Community Input



APPENDIX

Housing Affordability Strategy Focus Groups — Summary Report

Key Take-Aways and Emerging Themes

As part of the Housing Affordability Strategies process, the San Francisco Planning Department (SF Planning) secured the services of InterEthnica (IE), a multicultural marketing and research firm, to conduct a series of 5 non-traditional focus groups with participants representative of the City's diverse residents. Our discussions gauged to understand participants' reactions, opinions, and perspectives of the three Housing Affordability Strategy Concepts developed by SF Planning to meet the Mayoral and Voter-approved goals to build 5,000 housing units per year for the next 30 years reaching the ultimate goal of 150,000 units with one third, or 50,000, permanently affordable at low and moderate incomes.

IE recruited residents from all demographics, including persons with limited English Proficiency (LEP), and low, moderate, and middle-income levels. Every group included representation from a variety of housing circumstances ranging from unhoused, couch surfing, SROs, housing projects, subsidized housing, senior housing, co-ops, apartments, condos, to single-family homes. Robust outreach was conducted, ensuring the focus group participants represented a diversity of age, length of residency, ethnicity, gender, sexual orientation, household sizes, and family structures.

167
INTERVIEWEES

48
PARTICIPANTS

3
LANGUAGES

A total of 167 interested participants were interviewed, and 60 people were selected for the 50 available seats. We moderated a total of five focus groups, including one in Chinese, one in Spanish, and three in English. A total of 48 people participated in the groups, and each received a stipend. The focus groups took place during the early evenings and on Saturdays to accommodate participants' schedules.

This summary highlights the key observations that emerged during this qualitative phase of the research. It includes quotes and commentaries and describes the observed emotions of individuals and the group as a whole as they participated in this hot topic discussion and shared their feelings and comments about the Housing Affordability Strategy Concepts. The feedback and perspectives gathered during these focus groups may be used to inform SF Planning's Housing Affordability Strategy Concepts.

The focus groups were emotionally charged. Discussions revealed that while most participants expressed a deep sense of pride in being a San Franciscan and intend to stay in the City, almost all communicated concern about the lack of affordable housing and the changing character of their neighborhood and the City itself. A few participants shared that they have already decided to leave. Stated reasons for leaving are not only related to cost, but specifically the loss of people of color, sense of community, and cultural flavor.

“With our growing population it makes sense to me to build taller buildings. That way more people will have homes using less space.”

Oceanview Resident



Some participants expressed fear, sadness, and frustration about changes they see and experience in the City, such as increasing numbers of homeless people and decreasing numbers of communities of color, human feces on the sidewalks, and the closure of neighborhood restaurants and shops. Still, other participants maintain hope for what the future of San Francisco holds in store for them, their friends, families, and members of their communities. United by the topic, these groups of people unknown to one another, laughed, cried, comforted, and encouraged each other as they discussed their housing experiences. Some participants shared stories that conveyed a longing for what the City use to be, while others shared ideas on how affordable housing could positively impact the City.

“I was raised in a six-bedroom Victorian owned by my parents. The Fillmore was beautiful back then, and I was proud to live there. The neighbors all knew one another, and we worked together as a community.”

75 Year Resident of Rosa Park’s Senior Housing A.K.A. the Pink Palace

Group #1	<p>When: Wednesday, January 29, 2020, 4:00 pm–6:00 pm</p> <p>Location: 60 Rausch Street</p> <p>Participants: 11 (6 male and 5 female)</p> <p>Language: Chinese</p> <p>Age range: 23–67</p> <p>Neighborhoods: Tenderloin, Sunset, Richmond, Chinatown, Visitation Valley, Oceanview, SoMa, Outer Mission, Mission, Sunnyside</p> <p>Length of Residency: 2–21 years</p> <p>Families with Children under 18: 4</p> <p>Housing Status: 5 own, 4 rent (one in an SRO), 2 living with relatives</p> <p>Income levels: 4: <25K, 3: 25K–50K, 1: 50k–75k, 3:75K–100K</p> <p>All born in: China</p> <p><i>One person living with a disability</i></p>
Group #2	<p>When: Wednesday, January 30, 2020, 6:30 pm–8:30 pm</p> <p>Location: 60 Rausch Street</p> <p>Participants: 10 (6 male and 4 female)</p> <p>Language: Spanish</p> <p>Age range: 23–67</p> <p>Neighborhoods: Lower Haight, Cole Valley, Alamo Square, Mission, Excelsior District, Sunnyvale, Richmond District, Noe Valley, North Beach, Outer Excelsior</p> <p>Length of Residency: 2–29 years</p> <p>Families with Children under 18: 2</p> <p>Housing Status: 2 own, 7 rent, 1 living with relatives</p> <p>Income levels: 4: <25K, 3:25K–50 K, 2: 50k–75k, 1: 75K–100K</p> <p>Born in: Mexico, Spain, Peru, and the Dominican Republic</p>



Group #3	<p>When: Saturday, February 1, 2020, 3:00 am–5:00 pm</p> <p>Location: 60 Rausch Street</p> <p>Participants: 7 (5 female and 2 male)</p> <p>Language: English</p> <p>Age range: 20–75</p> <p>Neighborhoods: Bayview and Western Addition</p> <p>Length of Residency: 20–69 years</p> <p>Families with Children under 18: 1</p> <p>Housing Status: 1 owns, one couch surfs or stays in shelters, 2 live in co-ops, rent, 1 lives in Rosa Parks Senior Housing, relatives 2 live in Low income subsidized housing (Price Hall)</p> <p>Income levels: 3: <25K, 1: 25K–50K, 1: 50k–75k, 1: 75K–100K, 1: 100K–150K</p> <p><i>One person with a walker</i></p>
Group #4	<p>When: Saturday, February 8, 2020, 11:00 am–2:00 pm</p> <p>Location: 60 Rausch Street</p> <p>Participants: 10 (6 female and 4 male)</p> <p>Language: English</p> <p>Age range: 23–67</p> <p>Neighborhoods: SoMa, Parkside, Mission, Ingleside, Bayview, Richmond District, Pacific Heights</p> <p>Length of Residency: 6–33 years</p> <p>Families with Children under 18: 3</p> <p>Housing Status: 2 own, 7 rent, 1 living with relatives</p> <p>Income levels: 1: <25k, 3: 25k– 0k, 1: 50k–75k, 1: 75k–100k, 1: 100k –125k 2: 125k–150k, 1: >150k</p> <p>Born in: US, Turkey, South Korea, and Germany</p>
Group #5	<p>When: Saturday, February 8, 2020, 4:30 pm–6:30 pm</p> <p>Location: 60 Rausch Street</p> <p>Participants: 10 (4 male and 6 female)</p> <p>Language: English</p> <p>Age range: 23–67</p> <p>Neighborhoods: Castro, Cathedral Hill, SoMa, Outer Sunset, Hayes Valley, Russian Hill, Twin Peaks, Tenderloin, Portola, Bernal Heights</p> <p>Length of Residency: 6–50 years</p> <p>Families with Children under 18: 2</p> <p>Housing Status: 1 own, 8 rent, 1 living with relatives</p> <p>Income levels: 4: <25K, 2: 25K–50K, 2: 50k–75k, 2: 75K–100K</p> <p>Born in: US, UK, China, Peru, Argentina, and France</p>

To preserve anonymity, participants' names have been removed, and gender-neutral pronouns are used whenever possible. Some demographic information is shared, allowing readers the opportunity to find that they share similarities with participants.



Separated by topic are Summary findings gathered across all of the focus groups.

Setting the Stage

After an interactive Ice Breaker designed to help people feel relaxed and give the moderator insights about the participants, we provided the groups with an overview of the Housing



Affordability Strategy: the background, purpose, and goals. We then presented the three concepts to the focus groups and had participants provide their opinions, consider trade-offs, and identify the obstacles and opportunities of each concept. Participants engaged in small group visioning activities designed to reveal which social and physical priorities they felt would be necessary to create vibrant, diverse, and livable neighborhoods of the future. Finally, we asked participants to think about their preferred concept for the future and share what is getting in the way of the City achieving this future?

East Side Focus Discussion

This concept features many new tall buildings added on the East Side of the City with busy, walkable neighborhoods filled with services, jobs, and activities.

Trade-off discussed: Some areas of the East Side currently do not allow residential development or restrict height to four or five stories. Allowing taller buildings in more areas will create opportunities to build far more affordable homes.

Initially, people in most groups reacted positively to the East Side focus concept, with many stating that they were willing to support height increase policy changes so the community could benefit from more housing units.

- Some said that since buildings are already going up in that area, it makes sense to continue building
- Build on the East Side because there is space
- They seem to know how to develop and run these types of buildings well on the East Side, so they should do more of it
- If it is faster and less expensive to build on the East Side

But after further discussion the reaction to the East Side Concept included:

- Public transportation is already overcrowded, slow, and unsafe in that area
- Landfilled area susceptible to earthquakes
- Issues related to toxins in the environment
- Unsafe area
- Sea-level rise may affect the East Side
- More buildings will make it feel like New York not San Francisco
- Tall buildings will ruin the Skyline



When the groups were asked about building heights, there was a marked difference between long-time residents and newer arrivals. Particularly because foreign-born residents often come from places where towers are commonplace they did not oppose higher building heights as long as the buildings are constructed to withstand earthquakes. Alternatively, people who identified as African American or Black, or had lived for a long time in the City were mostly against towers.

One participant stated, “They (the City) tried that before and failed. (Referring to the Towers in Visitacion Valley)

- It does not seem like an equitable solution, putting all of the low-income people in the same area with toxins and lousy transportation.
- If developers do not maintain elevators, towers will become unsafe.

When asked what might make taller buildings appealing, participants said:

- Buildings should be constructed in the sunshine and not cast shadows on nearby housing.
- Boards or commissions overseeing building maintenance and safety need to be inclusive and reflect the diversity of the area and select residents fairly.

The development of an affordable housing waiting list that prioritizes people in this order in addition to income:

1. Length of residence in the neighborhood
2. People of color, specifically African Americans
3. Native-born San Franciscans

When asked to choose the number one social priority to create a vibrant, diverse, and livable neighborhood on the East Side participants shared these results:

(see tables on next page)



Social Priority Choices

	Families	Economic Diversity	Racial/Ethnic Diversity	Family-Owned Businesses	Age diversity (seniors, youth, middle-aged residents)	Other: Accessibility	Other: LGBTQ Diversity
Chinese Language Group	5	6	0	0	0	0	0
Spanish Language Group	3	3	0	2	2	0	0
English Group Western Addition Focus	2	2	2	0	1	0	0
English Group Morning	1	3	4	0	1	1 (easy access to transportation and accessibility for persons with disabilities)	0
English Group Afternoon	2	5	2	0	1	1	1

Physical Priority Choices

	Transit (Public, Sidewalks & Bike lanes)	Outdoor Space (Parks, Trees & Parklets)	Community Service Centers (Senior services, Clinics, Community Centers)	Private Open Space (Patios, Courtyards & Rooftops)	Retail Corridor Access to Local Jobs, Local Shops, Local Restaurants (Ethnic), Grocery Stores, Farmer's Markets
Chinese language Group	3	1	1	1	4
Spanish Language Group	3	2	2	0	3
English Group Western Addition Focus	1	2	2	1	1
English Group Morning	3	2	3	0	2
English Group Afternoon	3	1	3	0	3



Concept 2: Next Stop Home (20 minutes)

Visual support for Concept 2: Includes a generalized map of transit line from SF Planning alongside an activated small neighborhood street, with mid-height buildings, restaurants with outdoor seating, and a variety of people including those with strollers, a dog on a leash, and laptop computers.

Potential Benefits

This concept was well-received by most participants; it made sense to them to build along transit corridors. Most participants do not own cars and depend only on the bikes, public transit, walking, and rideshare. However, many participants shared their concern about public transportation still needing a tremendous amount of improvements to meet the demands of the ridership. Comparisons were made to other cities around the world where public transit is considerably faster, cleaner, safer, and on-time. Many participants responded well to disbursement of the new buildings to areas beyond the East Side. People liked the idea of the use of mid-rise buildings to provide affordable housing options.

“I really want to move out of my parents’ home, but I don’t want to leave the City. Affordable housing could be just the ticket for me.”

Resident living on the West Side in his parents’ house

Most participants saw many benefits to building along major transit corridors including:

- More income for small local restaurants and shops that are already located along the transit corridors
- An opportunity for families to rent affordable units and stay in the City
- The ability to live near parents
- More job opportunities outside of the downtown areas
- Access to a variety of housing stock
- Possibility of increasing the value of current housing stock
- More diversity
- With 40% of affordable units being 2–3 bedrooms, many expressed hope that felt this affordable housing concept would give them the opportunity to stay in the City
- Less people would need to drive cars

“It would be so nice to go to the beach and have something to do, places to eat, shop, and hang out with your friends and families.”

Resident living in the Sunset

Potential Barriers

Some homeowners and people that live on the West Side or along major transit corridors expressed serious concern about how this concept might affect the current racial demographic and change characteristics of the West Side communities.

- Transit system will need to improve
- Racial diversity scares some of the older community members who want to keep the local shops and restaurants
- Family-owned businesses get priced out of their spaces



Concept 3: Residential Neighborhood Growth

Visual representation: varied low-height buildings, and a family-style neighborhood showing some ground-level floor space. Maintains neighborhood characteristics with a bit more density than for which the current situation allows. Participants were asked if they would support allocating more public funds to reach the City's affordable housing goals, considering that the residential Neighborhood Growth Concept is less likely to generate as much affordable housing from private investment as the other concepts.

Approximately 60% said they were not interested in paying more taxes and hoped the City would be able to find funds to support this approach. However, a surprisingly high number of participants said they believe in taxes but have a distrust in government and would want a high level of transparency.

Benefits

SF Natives expressed the most interest in this concept, especially those who have children under the age of 18 and dream of living in a single-family dwelling with a little yard. Most participants like the idea of the housing being spread throughout the City because it gives people the most choice in where they might choose to live.

Barriers

Three main barriers were discussed:

- Quantity; Whether this concept could really meet the affordable housing goals
- Cost; Would the City and citizens support the allocation of the necessary funds
- Time; Would this concept take much longer to get approval because there would be so many individual units.

Conclusion

Nearly all of the participants expressed deep desperation for affordable housing regardless of their level of education, income level, or current housing situation. Some participants said they were sad and have already given up on the living in the City. Others felt that the concepts are just a drop in the bucket, but nearly all felt the Housing Affordability Strategy was a positive step in the right direction. While reactions to the concepts varied, most participants stated some combination of the concepts would be a good thing for their communities and the City.

Participants offered ideas about what fair and equitable placement in the low and moderate-income units would mean to them while maintaining the character and diversity of their neighborhoods and the City at large. One person described a SF Natives First program wherein people from low-income households would get bumped up the low-income waitlist. "The city has records of who attended

"Thank you so much for this opportunity to speak. I was ready to move out of San Francisco before this discussion. I'm now re-thinking my position knowing that SF does care about people and community. I'm very grateful for today!"

Resident living in the Sunset

"I don't know how you found me, but I have never received an invitation to participate in anything like this before. The public meetings in the Fillmore are always happening when I am at work, and that makes me think they don't really want to hear from me. Anytime you need my input or help to spread the news to members in my community, you just let me know."

Resident living in the Fillmore



public school from kindergarten through high school and college too; use those records and don't give low-income housing units away to newcomers to our city." This same participant broke down and cried when asked why do I have to be number 1,500 on a waitlist for low-income housing, why can't I get a job and help my family without them losing their place or getting their rent raised, why?

Participants expressed gratitude for being invited to participate in the group, and some asked how they could stay involved with the Housing Affordability Strategies in the future.

Summary of Housing Policy Group Feedback

As part of the HAS process, the Planning Department convened a Housing Policy Group consisting of key leaders within organizations that regularly comment on housing policies and programs in the city. The department solicited applications for this group and received expressions of interest from people representing 45 organizations and ultimately decided to invite all applicants to participate. The organizations represented included tenant advocacy, real estate industry organizations, both non-profit and for-profit real estate developers, and social service organizations among others.

To focus the group's discussions, Street Level Advisors conducted confidential individual interviews with a sample of participants in Winter 2019. In July and August of 2019, we held 6 small group discussions with Housing Policy Group Members – each session focused on a specific aspect of the City's housing affordability challenge. These discussions helped Planning to orient the research conducted in this project to address questions that were seen as most critical by stakeholders. Then, in early February of 2020, following the completion of the majority of the research, we convened an additional three focus group sessions to review preliminary results and reflect on the emerging analysis.

This summary is intended to highlight some of the discussion points, comments or concerns with the greatest relevance to the development of the Housing Strategies report and the ongoing research.

Initial Policy Framing Discussions (July/Aug 2019)

Where Should Housing Go? Participants were somewhat mixed in their opinions about the likelihood of adding significant housing through upzoning single family neighborhoods but there was near consensus about the desirability of increasing densities along transit corridors.

A number of participants were enthusiastic about the idea of setting citywide growth targets, allocating

that growth to specific neighborhoods and allowing communities to develop local plans to accommodate that growth.

There was surprising agreement among participants in the 'where should housing go' discussion that the city would need to invest more energy into neighborhood level planning processes (of one form or another) if we wanted to see more housing built in every neighborhood. Even people who were highly skeptical of planning agreed that some kind of hybrid approach was necessary: not top down, not bottom up but community level plans with citywide accountability.

Housing Balance/Income Targeting: Participants in the two Housing Balance discussions generally agreed that San Francisco should set a goal of 1/3 of all housing being income restricted and permanently affordable. The suggestion was not to require 1/3 in new buildings but to require the maximum that is feasible through inclusionary zoning and then provide public subsidy for new construction and preservation with the goal of achieving an overall target of 33%.

There was a suggestion that the project pay particular attention to the assumptions about demolition. There are some approaches to new development which would require relatively greater levels of demolition. There also seemed to be a difference between demolition of single-family homes (Which often don't displace tenants) and demolition of multi-family rental stock.

There was general agreement that the city should focus on market and regulatory tools to encourage middle income housing while reserving scarce subsidy funds for households with the greatest needs.

There was consensus that the city should identify additional tax revenue sources to support development of lower income housing.

There was agreement that the sizes (number of bedrooms) of new units are shrinking and that this contributes to the loss of middle-income families. There was a suggestion that policy changes could lead to more 'family sized' units being built.

Preservation: Participants in the two Preservation discussions agreed that purchasing and preserving existing buildings as permanently affordable housing offered important benefits that were distinct from the benefits of new construction. In particular, preservation strategies are the only tools that offer immediate benefit to tenants at risk of displacement.

There was broad agreement that the Small Sites program offered a promising first step which could be scaled up to a more significant program.

Scaling up a preservation program will require new and different capacity than the current affordable housing delivery system.

Participants were uncertain about whether preservation projects were more costly or more cost efficient than new construction but most agreed that rising costs for new construction have made preservation more competitive.

Housing Innovation: Participants discussed the potential and limits of a number of cost saving innovations including Cross Laminated Timber, Modular Construction and Co-living.

The general conclusion was that, with the possible exception of modular construction, these innovations (and others like them which have not been identified yet) are coming to San Francisco regardless of the City's policy choices. The main question for the city is how quickly they will be implemented.

As we project future growth, it seems reasonable to assume that development will benefit from cost saving innovations including the ideas discussed and others that have not been identified yet.

Feedback Sessions (January 2020)

Housing Needs and Challenges. We presented a selection of the context data from the HAS report and answered stakeholder questions. Most questions focused on the historical production data. Several people found the summary of current programs and production discouraging because, the city is clearly doing a lot but the problem seems to be growing faster. One participant noted that the historical data

about income levels served shows that the city is able to adjust who benefits from affordable housing through changes in policy. Another noted that it would be more effective to build affordable housing during down markets, if there were a way to do that. There was general agreement that the history showed that the city can't rely on any one approach to producing affordable housing. One participant said "we need more tricks up our sleeve."

Concepts for Future Housing Development. We presented the three concepts to these stakeholder groups and asked for feedback. In particular we asked participants to identify the advantages and challenges for each approach, to discuss who would benefit and who would bear any negative burdens from each approach and to identify specific resources required for each strategy to succeed.

East Side Focus

Advantages

- Some participants saw this as the most 'natural' or most familiar approach to growth. Both developers and neighbors know how to manage building on the east side
- More housing would be built close to jobs
- These areas are already transit rich
- More high rise development offers environmental benefits

Disadvantages

- Others saw this as the approach that has been failing us for the past several decades
- This approach struck many as less equitable because it concentrates building in lower income areas
- Many expressed concern about further gentrification
- There was a concern about seismic issues because much of SOMA is on landfill
- One participant saw this approach as harming people on the west side who would receive less investment in their neighborhoods

Transit Corridors

Advantages

- There was much enthusiasm for this approach because it was seen as spreading the benefits and burdens of growth more equitably
- Some felt that the housing built on these corridors might be more likely to be family serving
- Building on the west side offers improved access to existing parks and schools
- State Cap and Trade funds might be easier to access if projects are not concentrated
- Reduces sprawl
- Adds housing in areas where there are existing small businesses
- Supports a greater diversity of housing types
- “Really opens up the city in a positive way”

Disadvantages

- This approach was seen as having high political risks because of potential community opposition to increased density/height.
- This approach would require new relationships and capacity for community engagement
- Might drive speculation and drive up costs in some neighborhoods
- There is a risk that infrastructure investments might not happen in time to support this strategy

Residential District Growth

Advantages

- Most participants saw this concept as the least threatening/most politically appealing in terms of public reaction to density
- Would create a niche for small local homebuilders – create an economic development opportunity
- Because lower density projects have lower per foot costs, these homes could sell/rent for less

– though they might not

- It might be easier to sustain this kind of growth in a down market
- Eliminating density limits but continuing to limit height would encourage smaller units

Disadvantages

- There were some concerns about whether this approach would really produce the projected number of new units
- This approach would produce fewer inclusionary units
- These projects might be less likely to use union labor
- This requires some kind of ongoing organizing strategy to ensure public acceptance
- There would likely be neighborhood concerns about parking

Other Observations:

Nearly all of the focus group participants felt that the city should draw on all of the concepts in order to maximize opportunities for housing. Among the concepts the Transit Corridors generated the most enthusiasm.

Infrastructure: Most people agreed that the proposed level of growth in both transit corridor and residential growth concepts would require expanded transit and other infrastructure (including commercial resources like grocery stores). Some people saw that as a barrier to implementation of this strategy while others saw that as a benefit because more building would make that transit investment more likely to happen (both financially and politically). There was some worry that the city would adopt a housing strategy without making the required infrastructure investment and fall short of the growth targets as a result.

Displacement: There was disagreement about which of the concepts would pose the greatest

displacement risk. Most agreed that the residential growth scenario might have the least negative impact on existing tenants in part because more growth would occur in areas dominated by homeowners who are less likely to be displaced. Some felt that building on transit corridors on the west side would similarly result in less displacement than building primarily on the east side. Others saw the proposed areas for growth on the east side as mainly commercial while the west side corridors include many existing apartment buildings which could be at greater risk of demolition. One participant observed that we would need a rental registry to really understand where the displacement risk was greatest. Everyone agreed that we need stronger tenant protections to reduce the displacement risks from any of these concepts.

Income levels: Several participants stressed the importance of addressing the question of which members of the community new housing will serve. Simply counting ‘affordable’ units does not tell us much about what income group. And similarly, for market rate buildings, public acceptance of additional density may be related to people’s sense of who the units will serve. Will they be rented to ‘people like me?’ Some participants felt that the Residential Growth concept might be somewhat more likely to produce slightly lower cost market rate units.

Filling the Gap

We presented projections for the likely market rate and affordable development associated with the alternatives and estimates for the future need for additional affordable housing subsidy.

There was some concern that the goal of 1/3 of units being permanently affordable was not based on an analysis of need. It is likely that the need for affordable units significantly exceeds this level. Some participants suggested the RHNA might provide an additional or even better target. One participant suggested being careful to identify these goals as minimums not maximums – we need to build at least this much.

Other participants expressed concern that the proposed financial needs seemed very high and could lead some portions of the public to resist

increasing funding because we were not likely to provide ‘enough’ money.

There was a widespread concern about voter ‘fatigue’ limiting the amount of future affordable housing bond funds. We are investing a lot today but it may be difficult to sustain this level of public support over decades. This concern led many to conclude that success in achieving the proposed targets would require identification of additional sustainable sources of funding which did not require 2/3 majority votes.

Participants suggested a few other potential sources for affordable housing funding:

- Public bank could reduce costs by replacing expensive private capital
- Tax abatements (currently prohibited in CA)
- Reform of the state’s Proposition 13 through a “Split roll” property tax system for commercial and residential property could provide some increase in tax revenue which could support affordable housing
- Vacancy tax
- Tax on corporations
- Tax on generators of additional workforce demand

Technical Appendix



Vera Haile Senior Housing. Photo by David Wakely

This technical appendix describes the approach, assumptions, and data sources used by Blue Sky Consulting Group and Strategic Economics for the regression analysis, the financial feasibility analysis, and the affordable housing analysis.

Regression Analysis

In order to estimate the impact of different housing policies on the extent and location of new housing development in San Francisco, the Blue Sky Consulting Group conducted an analysis of the San Francisco housing market during the period 2001-2018, examining the relationship between the extent of multifamily residential housing development and economic and parcel-specific factors that may influence the likelihood of development. The results of this analysis comprised the basis for a simulation model which uses information about the characteristics of each of the approximately 150,000 parcels in the city together with data on previous housing development and market conditions to estimate the likelihood of multifamily housing development. Specifically, the model estimates the likelihood of development based on several key explanatory variables, including prices, construction costs, land use and zoning, and the “development potential” of individual sites measured as the ratio of potential building size to current size.

Using these variables, the model allows for development of estimates of the number of units that are likely to be built based on current zoning and economic conditions as well as in response to policy changes that, for example, decrease costs (such as a fee reduction) or increase development potential (for example by allowing for additional building height).

Methodology

The housing market analysis was conducted using a logistic regression in which the likelihood of market-rate multifamily housing development (the dependent or outcome variable) was estimated based on a series of independent (explanatory variables), including construction costs, housing prices, and parcel-specific characteristics including contemporaneous zoning category, current residential use or historical designation, current permissible building size (envelope), and development potential (ratio of permissible to existing building size). Results of the regression analysis are presented in Figure 1, which shows that each of the key explanatory variables was highly statistically significant. Most importantly, these results show that changes in construction cost or

development potential have a statistically significant association with the likelihood of development, allowing for use of these variables in developing a simulation model to estimate likely development under a series of concepts developed by Planning.

In order to develop the simulation model results, a baseline scenario was developed in which the number of likely units to be developed over the next 30 years was estimated based on specified baseline economic conditions and current zoning. Next, three individual concepts were developed by Planning specifying changes in zoning and density, and the resulting change in likely residential development was modeled for each scenario. Large project areas, such as Treasure Island or Mission Bay, were modeled separately by Planning, and the resulting units were added to the simulation model totals. The number of (non-inclusionary) affordable units and accessory dwelling units were also estimated by Planning separately from the simulation model and added to model results to produce total unit estimates for each scenario.

Data Sources

In order to conduct this analysis, data for each of the more than 150,000 parcels in the City was collected from Planning. In addition, data was collected on each of the multifamily residential projects completed anywhere in the city during the study period. For each parcel, information was collected regarding the existing land use, zoning, and the potential for future development (i.e. the ratio of allowable building size to current building size). Where factors have changed over time (for example with respect to zoning) data was collected for each year, 2001 - 2018. In order to create the development potential variable, a potential building envelope measure was constructed for each parcel in each of the model years. This variable used information about parcel area, setbacks, density limits, and maximum allowable building height to construct the measure used in the regression model. In addition, information about housing prices and construction costs were included in the model data set for each of the study years.

TABLE A1.
Regression Analysis Results

Explanatory Variables - Descriptions	Values for Selected Model	
	coeff	Prob>Chi Sq
Intercept	(10.2835)	0.0000
Parcel has Historic Status (Dummy Variable)	(0.5213)	0.0000
Parcel has Existing Residential Use (Dummy Variable)	(1.1345)	0.0000
SF Housing Price Index (Zillow), Real	0.0511	0.0000
Federal Reserve Multifamily Housing Index, Real	(0.0391)	0.0000
Potential Building Envelope in 1000 sq ft	0.0007	0.0199
Potential Building Envelope / Existing sq ft	0.0763	0.0000
Zoning Dummy Variables:		
Zoning = Office/Commercial	3.2714	0.0000
Zoning = Density Restricted Multifamily	2.7671	0.0000
Zoning = Form Based Multifamily	3.6281	0.0000
Zoning = Industrial / Production, Distribution & Repair	2.2291	0.0000
Zoning = Public/Open Space	(1.4265)	0.1561
Zoning = Redevelopment Area	3.6509	0.0000
Zoning = Residential 2-Family (2 Units per Lot)	1.3510	0.0000
Zoning = Residential 3-Family or Residential Mixed-1 (1/800 sqft)	1.4429	0.0000

Note: Omitted zoning variable is RH1 (Residential Single Family); coefficients shaded in yellow are statistically significant at the 95 percent level.

Financial Feasibility Analysis

Strategic Economics analyzed the financial feasibility of new multi-family housing development (25 units or larger) in different neighborhoods of San Francisco. The analysis was designed to provide an understanding of the factors that determine whether new development projects are likely to move forward under current (2020) market conditions and development costs.

Methodology

Strategic Economics developed a static pro forma model, a commonly used tool to assess the financial feasibility of a new development project. This method tallies all development costs and revenues, and calculates the return/profit to determine whether a project is likely to attract investment. Strategic Economics analyzed four types of large-scale residential development “prototypes” that represent potential buildings at different scales that could be constructed in San Francisco:

- A low-rise building prototype with five stories of residential area
- A mid-rise building prototype with eight stories of residential area
- A high-rise building prototype with 14 stories of residential area
- A high-rise building prototype with 24 stories of residential area

For the purposes of this analysis, all the building prototypes were analyzed as rental apartment developments.

Financial feasibility was tested for each building prototypes using assumptions about revenues and costs, described below.

Cost Assumptions and Data Sources

To arrive at assumptions about development costs, Strategic Economics reviewed feasibility studies completed for the City of San Francisco in the last 2-3 years:

- “Mission-San Jose PDA Housing Feasibility Study,” Keyser Marston and Associates, 2019
- “Inclusionary Housing Feasibility Update,” Republic Urban, 2019
- “Inclusionary Housing Analysis of Divisadero and Fillmore Street Rezoning,” Office of the Controller, City and County of San Francisco, 2018
- “Financial Analysis of Use of State Density Bonus Provisions in Non-Density Controlled Sites: Florida Street and Bryant Street Prototypes,” Keyser Marston Associates, 2018
- “30 Otis Street Historic Alternatives Economic Analysis,” ALH Urban & Regional Economics, 2018
- “450 O’Farrell Street Development Feasibility Review and Evaluation,” Environmental and Planning Systems, 2017
- “Financial Analysis: Eastern Neighborhoods Community Benefits Study,” Keyser Marston Associates, 2017
- Multiple feasibility studies for The Hub in Market-Octavia, Strategic Economics, 2016-2019
- Additional feasibility studies and construction cost estimates for other high-cost Bay Area cities

These studies included a mixture of low-rise, mid-rise, and high-rise building types. Representative cost assumptions for each building type were drawn from these examples and organized into four categories:

- **Hard costs** include the direct cost of constructing buildings and other onsite improvements such as landscaping and infrastructure. Per unit hard costs vary by building type, reflecting the different types of construction (e.g., concrete, steel, and/or wood-frame) and different types of parking. Based on the review of previous feasibility studies, typical hard costs were assumed to range from \$360,000 per unit for low-rise construction to \$450,000 per unit for high-rise construction. Hard costs, which can represent between 50 to 75 percent of total development costs, do not vary by location within San Francisco.
- **Soft costs** include indirect costs associated with the project, including professional fees for design and engineering, and other costs such as taxes, insurance, planning and permitting fees charged by the City, and the cost of financing. Based on the review of previous feasibility studies, typical soft costs range from \$94,000 per unit for low-rise

construction to \$109,000 per unit for high-rise construction, or 15 to 18 percent of total development costs, excluding impact fees.

- **Municipal impact fees** are soft costs that have been itemized separately in this analysis: these are fees charged to offset the impact of development on City services and the community at large. Based on the review of previous feasibility studies, citywide impact fees were estimated to range between \$21,000 per unit for low-rises to \$23,000 per unit for high-rises (three to four percent of development costs). These amounts exclude any special district fees or the City's Inclusionary Affordable Housing requirement. Special district fees raise costs and can represent an additional burden on development in areas where they apply. The Inclusionary Affordable Housing requirement was modeled as a reduction in revenues from satisfying the requirement with affordable units on site (see next section).
- **Land costs** assumptions were determined by reviewing the above feasibility studies and comparable land sales in San Francisco. Strategic Economics analyzed recent land sales from the Costar, a real estate database. In San Francisco, land costs vary by location and zoning capacity, ranging from \$200 to \$1,000 per square foot.

Revenue Assumptions

The revenues generated by the development of rental apartments are closely tied to the market rent levels, which vary across the city. Using rent data from Costar and from comparable, recently completed projects, Strategic Economics estimated average rents for four different submarket tiers with the city. For the high rise building prototypes, the rent assumptions included a rent premium for the views and amenities offered in luxury towers. Average monthly rent for each prototype ranged from \$2,719 to \$5,538 per unit depending on location and building type.

The pro forma analysis assumed that all projects would comply with San Francisco's Inclusionary Affordable Housing requirement for 2020, which requires that private development projects citywide include at least 20 percent of units at below-market rate, affordable to lower income households. For

the purposes of this analysis, it is assumed that the below market rate (BMR) units would be provided on-site at an average rent of \$1,800 per month. The rental revenues from market-rate and BMR units were converted to an overall building capitalized value using the income capitalization approach. The income capitalization approach used standard assumptions for vacancy and operating expenses, and the current market capitalization rate for multi-family rental development in San Francisco.

Return/Profit Assumptions

Based on the capitalized value and development costs determined in the pro forma, Strategic Economics calculated the return on investment for each building type and submarket tier. The threshold return on investment of apartment projects to be financially feasible in San Francisco generally ranges from 15 to 25 percent above total development costs.

Policy Concepts

Strategic Economics used the pro forma model described above to test the impact of policy concepts on feasibility of development. Two major policy concepts with the potential to reduce development costs were analyzed:

- **Reduction of construction costs** through the use of emerging technologies. Nascent technologies such as cross-laminated timber (CLT) and modular construction have the potential to reduce hard costs once they become more widely adopted. To evaluate the impact of these efficiency gains, Strategic Economics tested a concept with construction costs reduced by 15 percent from current 2020 levels.
- **Reduce impact fees.** Citywide impact fees are estimated to be, on average, approximately \$25 per gross square foot of building area, excluding the inclusionary affordable housing requirement. Strategic Economics tested the impact of reducing fees on feasibility.

Affordable Housing Analysis

Strategic Economics reviewed available reports and data to estimate the cost of meeting the HAS production and preservation goals.

New MOHCD Units

For new production, Strategic Economics reviewed reports from the California Tax Credit Allocation Committee (TCAC) for 11 affordable housing projects that received tax credits from 2017 to 2018. The project-based data was verified through qualitative

information provided by MOHCD. Based on a review of these projects, Strategic Economics estimated that the City of San Francisco has contributed an average of \$257,000 per unit for new affordable housing development projects, excluding land costs.

Land Costs

In addition to the funding gap shown above, there is also a cost associated with acquiring new sites for affordable housing development. Based on a review of recent land transactions from Costar Group, a real estate database, the average cost of land zoned for low and mid-rise development is \$450 per square foot in San Francisco.

TABLE A2.
Sample of Recent Affordable Housing Projects in San Francisco

Project Name	Total Units	Project Type *
1950 Mission Street	157	Non-Targeted
2060 Folsom Family Housing (Casa Adelante)	127	Large Family
88 Broadway	125	Non-Targeted
735 Davis	53	Seniors
Mission Bay South Block 6 West	152	Non-Targeted
490 South Van Ness Ave	81	Non-Targeted
1990 Folsom	143	Non-Targeted
Eddy & Taylor Family Housing	113	Non-Targeted
455 Fell	108	Large Family
1150 Third Street (Mission Bay South Block 3 East)	119	Special Needs
1296 Shotwell Senior Housing	94	Seniors

Note that all projects in the sample use 4 percent Low Income Housing Tax Credits.

*Non-targeted affordable housing developments serve many types of low income households including a significant percentage of supportive housing units for people who are formerly homeless in nearly all 100% affordable housing developments.

Source: California Tax Credit Allocation Committee, 2017-2018.

TABLE A4.
Land Cost
Assumptions

Assumptions		
Number of affordable MOHCD funded units	472	units per year
Gross area per unit 1	1,000	square feet
Number of residential stories 2	6	stories
Lot coverage	0.75	% of lot
Floor-area-ratio	4.50	
Land area required	104,889	square feet of land per year
Average cost of land 3	\$450	per square foot
Land costs 3	\$100,000	per unit
Annual land acquisition costs 3	\$47,200,000	per year

1 Includes non-leasable space in building.

2 Assumes new affordable housing developments would be in seven-story buildings with six stories of residential units and non-residential space on the ground floor.

Sources: SF Planning, Costar Group; Strategic Economics

Assuming that most affordable housing projects built by MOHCD would be in mid-rise buildings with six stories of residential units, and a floor-area-ratio of 4.50, this translates to land costs of approximately \$100,000 per unit. The HAS establishes a target of 943 MOHCD-funded affordable units each year. MOHCD has used public sites or land dedication to accommodate about half of recent 100% affordable development. This pattern implies the need to acquire sites that could accommodate half the MOHCD funded affordable units or 472 units per year. This assumption translates into land acquisition costs of \$47.2 million per year.

Preservation of Existing Affordable Units

Strategic Economics also calculated the cost of preserving an existing MOHCD-monitored units that may be at risk of being converted to market-rate. The estimated cost of \$110,000 per unit is based on preliminary estimates from MOHCD for the Capital Plan.

Preservation Acquisitions/ Small Sites

Based on data from 2014 to 2019 collected by Planning and MOHCD, the City of San Francisco's total funding contribution to Small Sites averaged around \$339,000 per unit. This represents 80 percent of total development costs, estimated at \$497,000 per unit.

Large Projects (HOPE SF, Treasure Island)

The cost of preserving and replacing affordable units (including housing and infrastructure) at HOPE SF sites, Treasure Island, and other large projects was estimated based on data from Planning. The average cost to the City is estimated at approximately \$399,000 per unit.

After multiplying the per unit cost estimates with the HAS targets for production and preservation, the total local funding gap is estimated at \$517 million per year.

TABLE A5.





Estimated Annual Local Funding Gap for Production and Preservation Goals

New Production Units	
30 Year Total MOHCD Funded Affordable Units (includes 2,400 new units in large projects)	28,300
Annual Average MOHCD Funded Units	943
Typical Local Gap Unit	\$ 257,000
Average Annual Funding Gap for MOHCD Funded New Production	\$ 242,436,667
Land for New Production	
Annual Average MOHCD Funded Units	943
Number of MOHCD Units Requiring Land Acquisition	472
Estimated Land Cost per Unit	\$ 100,000
Average Annual Funding Gap for MOHCD Funded New Production	\$ 47,166,667
Preservation	
Rebuilt Units in Large Projects (Hope SF, Treasure Island)	1,829
Preservation of Existing Affordable Units	18,431
Preservation Acquisitions/Small Sites	12,000
Preservation Local Funding Gap (Per Unit)	
Rebuilt Units in Large Projects (Hope SF, Treasure Island)	\$ 399,235
Preservation of Existing Affordable Units	\$ 110,000
Preservation Acquisitions/Small Sites	\$ 339,000
Preservation Local Funding Gap (Annual)	
Large Projects (Hope SF, Treasure Island)	\$ 24,340,033
Preservation of Existing Affordable Units	\$ 67,580,333
Preservation Acquisitions/Small Sites	\$ 135,600,000
Average Annual Funding Gap for Preservation	\$ 227,520,367
Annual Local Funding Gap - Production + Preservation	\$ 517,123,700






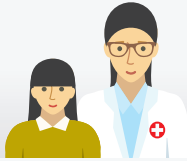










Sources: SF Planning, MOHCD, Street Level Advisors, Strategic Economics.

Who lives in affordable housing?

Annual Median Income, by Household Size

	 1 Person	 2 People	 3 People	 4 People
Very Low-Income Households <i>Earn up to 55% of Area Median Income</i>	\$47,400	\$54,200	\$60,950	\$67,750
Low-Income Households <i>Earn up to 80% of Area Median Income</i>	\$68,950	\$78,800	\$88,700	\$98,500
Moderate-Income Households <i>Earn up to 110% of Area Median Income</i>	\$94,800	\$108,350	\$121,950	\$135,450
Middle-Income Households <i>Earn up to 130% of Area Median Income</i>	\$112,050	\$128,050	\$144,100	\$160,100

Annual Median Household Income Examples

<p>1 person household at 25% AMI</p>   <p>A retiree receiving social security</p> <p>\$18,000</p>	<p>1 person household at 35% AMI</p>   <p>A cashier living alone</p> <p>\$31,150</p>	<p>2 person household at 55% AMI</p>   <p>A nursing assistant with a child</p> <p>\$53,670</p>	<p>4 person household at 60% AMI</p>   <p>A housekeeper ^A and a janitor ^B with two children</p> <p>\$71,340</p>
<p>3 person household at 85% AMI</p>   <p>An entry level police officer with a stay at home partner and child</p> <p>\$89,860</p>	<p>4 person household at 100% AMI</p>   <p>An entry level firefighter ^C and a childcare worker ^D with two children</p> <p>\$117,300</p>	<p>3 person household at 120% AMI</p>   <p>A carpenter ^E and a first year school social worker ^F with a child</p> <p>\$130,037</p>	<p>2 person household at 130% AMI</p>   <p>Two first year SFUSD teachers ^G</p> <p>\$126,916</p>

A. Housekeeper \$39,800 B. Janitor \$31,540 C. Entry level firefighter \$81,040 D. Childcare worker \$36,260 E. Carpenter \$63,570 F. First year social worker \$66,467 G. First year SFUSD teacher \$63,458
 Source: California Employment Development Department Occupational Employment Statistics 2019 San Francisco and San Mateo Counties Metropolitan Area, San Francisco Department of Human Resources, San Francisco Police Department, San Francisco Unified School District

Endnotes

- 1 MOHCD provides the following 2019 income categories for a family of three: very low-income: 0-50% Area Median Income (AMI) or \$55,450; low-income: 50-80% AMI or \$88,700; moderate-income: 80-120% AMI or \$133,000; above moderate-income: 120-150% AMI or \$166,300; upper income: 150% AMI+ or \$166,300
- 2 According to analysis by the Center on Budget and Policy Priorities (CBPP) only a quarter of very low income households that income qualify receive federal housing assistance and federal housing funding has stagnated or declined in recent years. http://apps.cbpp.org/shareables_housing_unmet/chart.html
- 3 Rice, D., (2016). "Chart Book: Cuts in Federal Assistance Have Exacerbated Families' Struggles to Afford Housing By Center on Budget and Policy Priorities." Center on Budget and Policy Priorities. Online: <https://www.cbpp.org/sites/default/files/atoms/files/4-12-16hous-chartbook.pdf>
- 4 ACS 2018 1 Year estimates of Units in Structure and Total Population
- 5 City and County of San Francisco Planning Department, February 2020. Online: San Francisco Point in Time Count, January 2019. Online: <http://hsh.sfgov.org/research-reports/san-francisco-homeless-point-in-time-count-reports/>
- 6 Housing Needs and Trends Report (2018). San Francisco Planning Department Online: https://default.sfplanning.org/publications_reports/Housing-Needs-and-Trends-Report-2018.pdf
- 7 Ibid
- 8 San Francisco Planning Department analysis of IPUMS-USA data
- 9 San Francisco housing production data 1990-2019 from annual Housing Inventory Reports published by the San Francisco Planning Department
- 10 Affordable housing production data 1990-2019 from annual Housing Inventory Reports published by the San Francisco Planning Department
- 11 Housing Needs and Trends Report (2018). San Francisco Planning Department. Note: In comparison, the Bay Area's overall Black population had been 8 percent in 1990 and had decreased to 6 percent over the next 15 years
- 12 Ibid. Note: Migration rate is defined as the number of individuals who moved in or out of San Francisco in a given year, as a percentage of the number of people in that income group in that year. The rate is calculated as an annual average over the 10-year period 2006 to 2015
- 13 Ibid. Note: Census data shows additional housing units were added over this period apparently not captured in official data but still fall tens of thousands of units short of increase in higher income households. Analysis of the 2010-2017 period by the Board of Supervisors Legislative Analyst shows similar trend in increase in higher income households. Policy Analysis Report: Jobs-Housing Fit. (2019). Budget and Legislative Analyst's Office. Online: <https://sfbos.org/sites/default/files/BLA.Jobs%20Housing.101619.pdf> <https://sfbos.org/sites/default/files/BLA.Jobs%20Housing.101619.pdf>
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