

SESSION 2:

WHERE DOES HOUSING COME FROM?

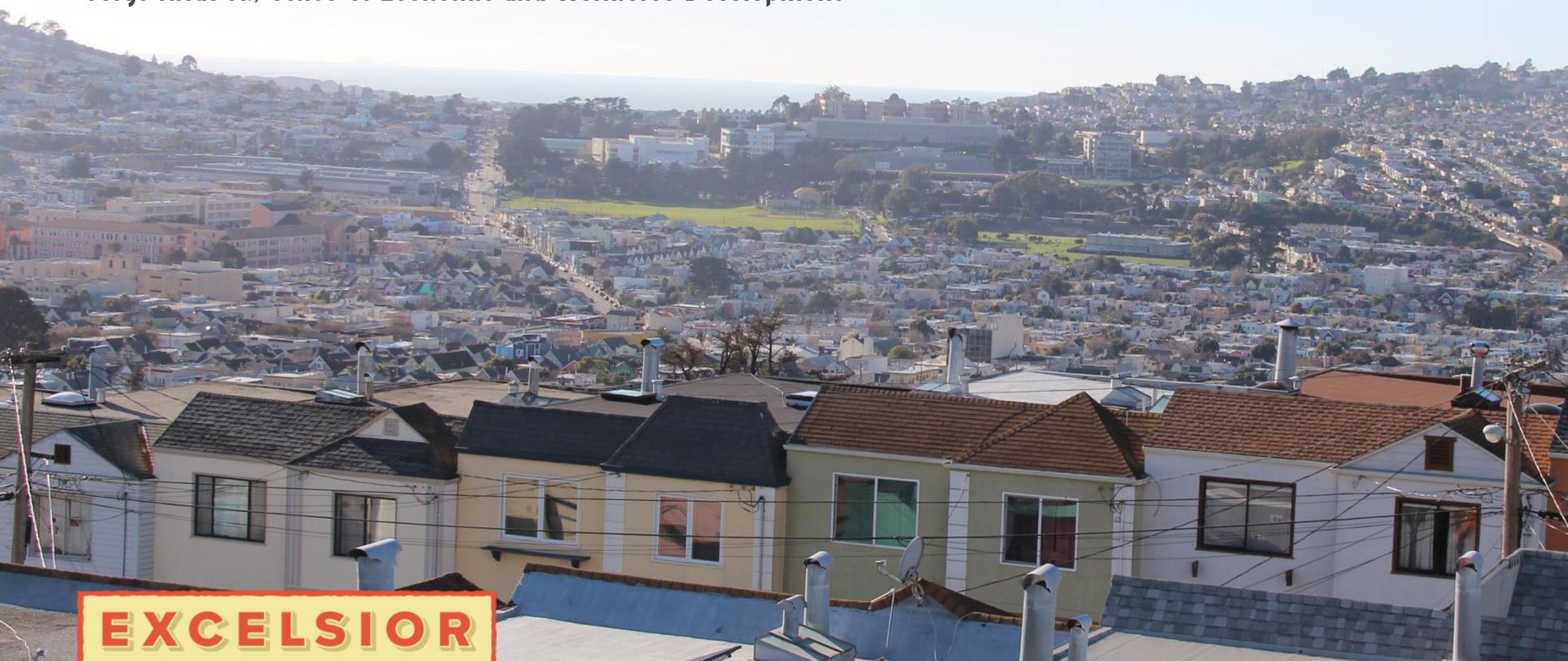
Excelsior and Outer Mission Land Use and Housing Working Group

Rachael A. Tanner, Planning Department

11/16/2017

James Pappas, Planning Department

Jorge Rivas Jr., Office of Economic and Workforce Development



**EXCELSIOR
OUTER MISSION**

NEIGHBORHOOD STRATEGY

**San Francisco
Planning**

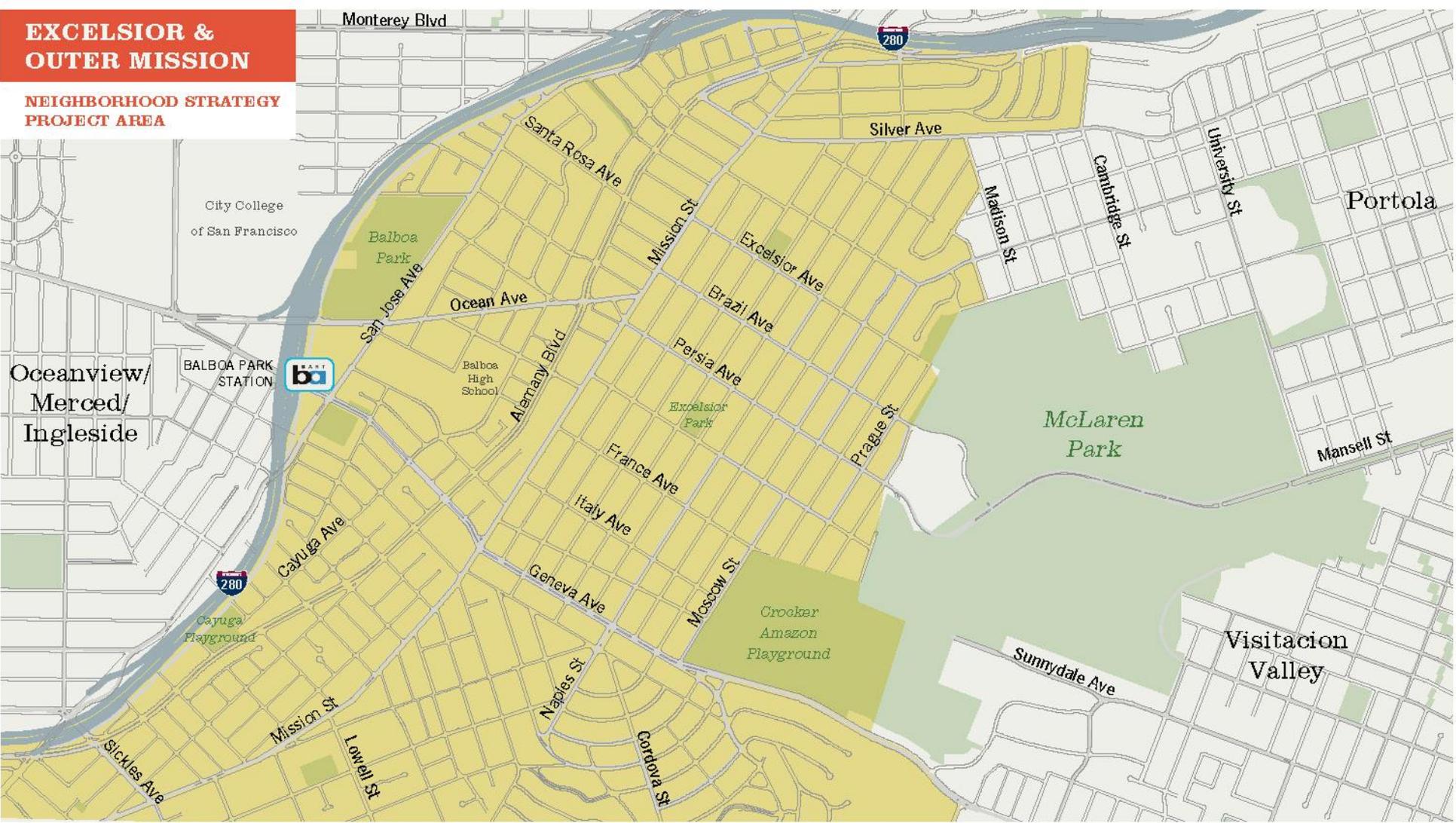
SAN FRANCISCO
Office of Economic and Workforce Development



City & County of
San Francisco
Edwin M. Lee, Mayor

EXCELSIOR & OUTER MISSION

NEIGHBORHOOD STRATEGY PROJECT AREA



Project Area – Excelsior & Outer Mission Neighborhood Strategy

4 SESSION LEARNING & DISCUSSION SERIES

- **Session 1:** Urban Change & Displacement
- **Session 2:** Where Does Housing Come From? Affordability
- **Session 3:** Design of the Built Environment
- **Session 4:** Housing Capacity & Zoning

Today

- Existing Housing
- Housing Finance
 - Market Rate
 - Affordable
- Strategies for Housing Development

CONTENTS & AGENDA

1 Welcome and Introductions – 10 minutes

2 Presentation – 60 minutes

3 Strategy Discussion – 40 minutes

4 Summary and Next Steps – 5 minutes

LAST TIME...

Origins of the Housing Crisis:

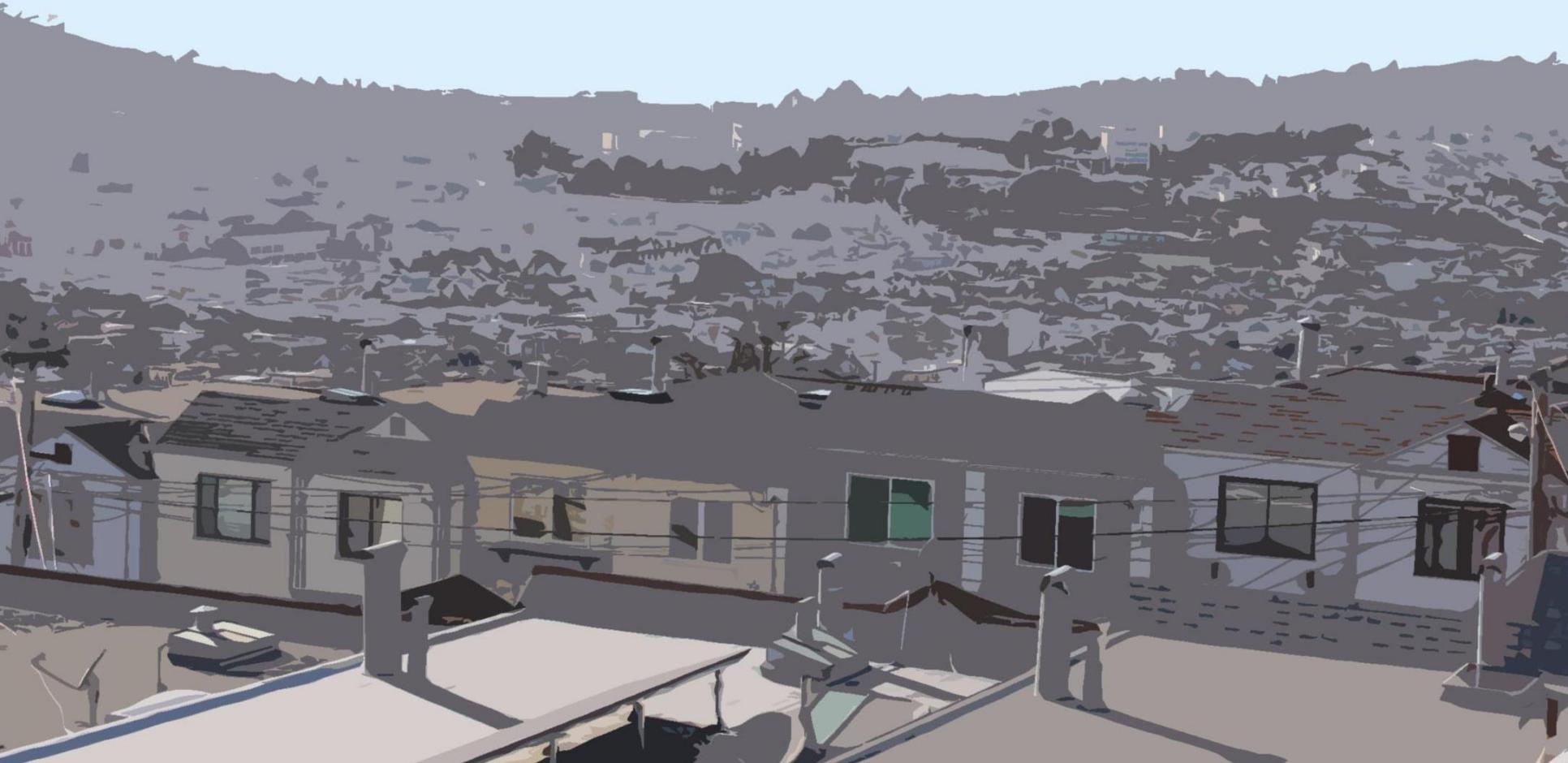
- Job Growth
- Population Growth
- Wage Growth
- Lagging Housing Production
- Limited Funding for Affordable Housing

Strategies to Protect Commercial & Residential Tenants

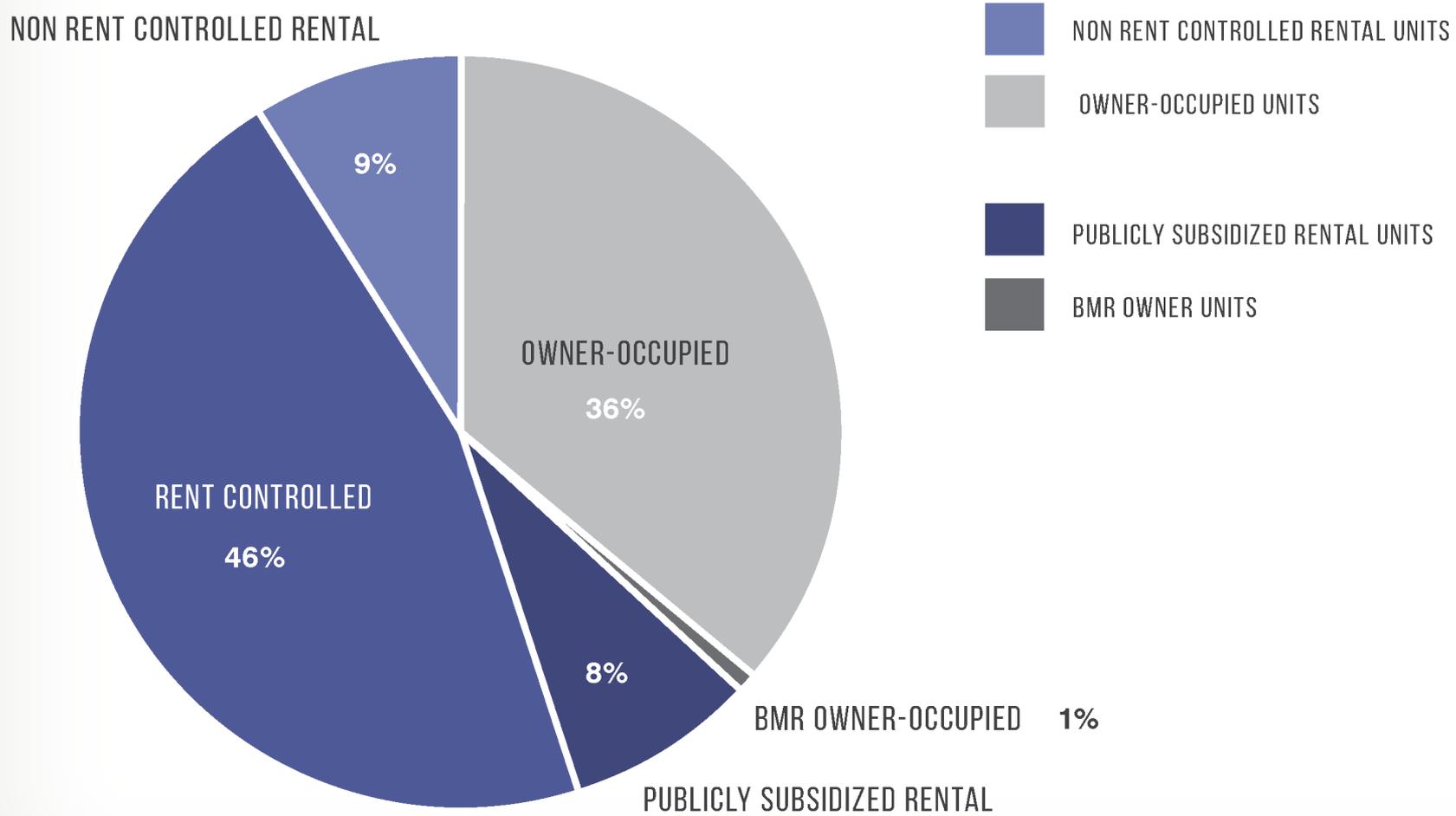
Where does housing come from?

- **Already Exists**
- **Built by the Private Market**
 - Including affordable units!
- **Built through Public Subsidy**
 - Including fees from the private market that build new affordable units

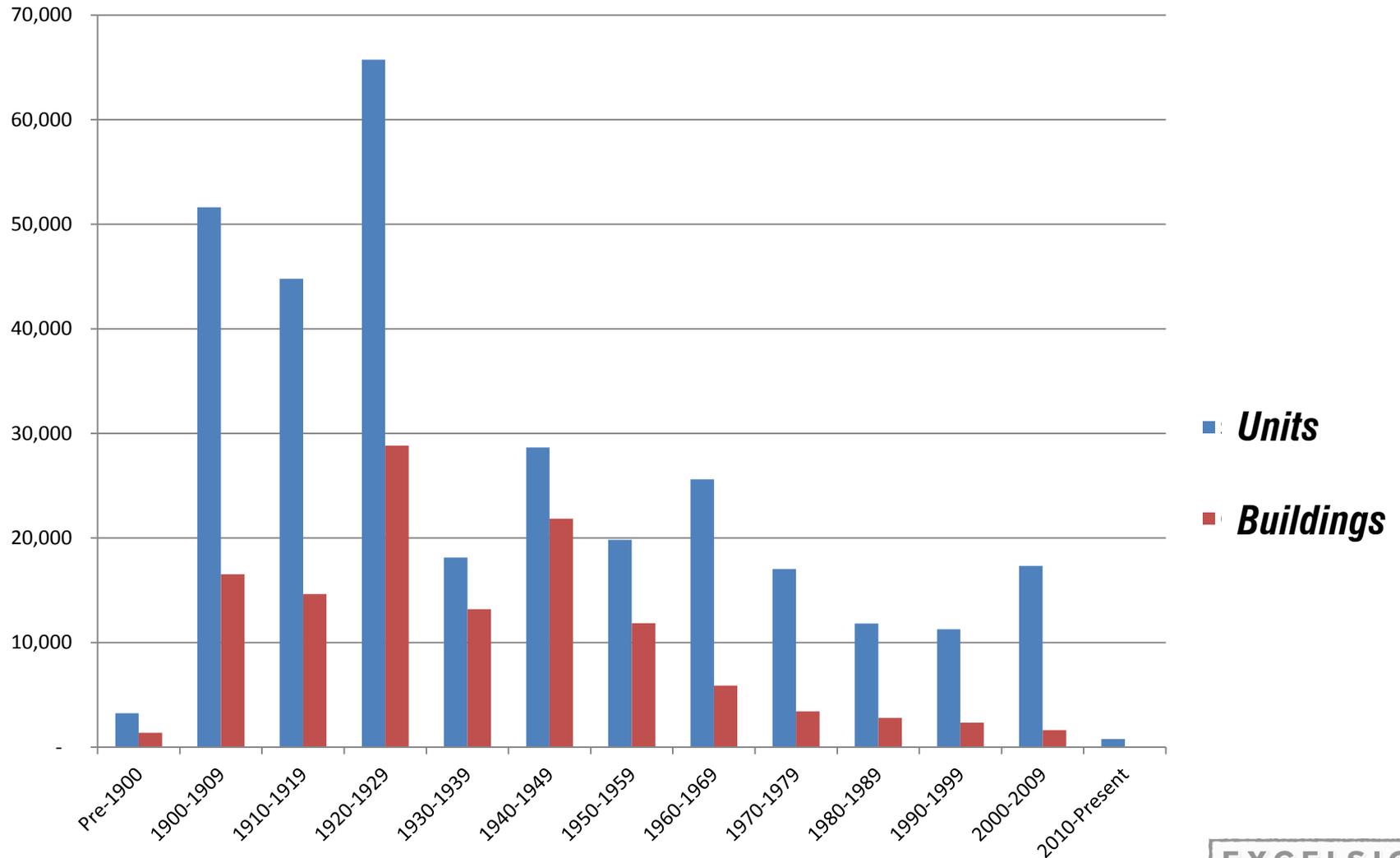
SAN FRANCISCO HOUSING STOCK



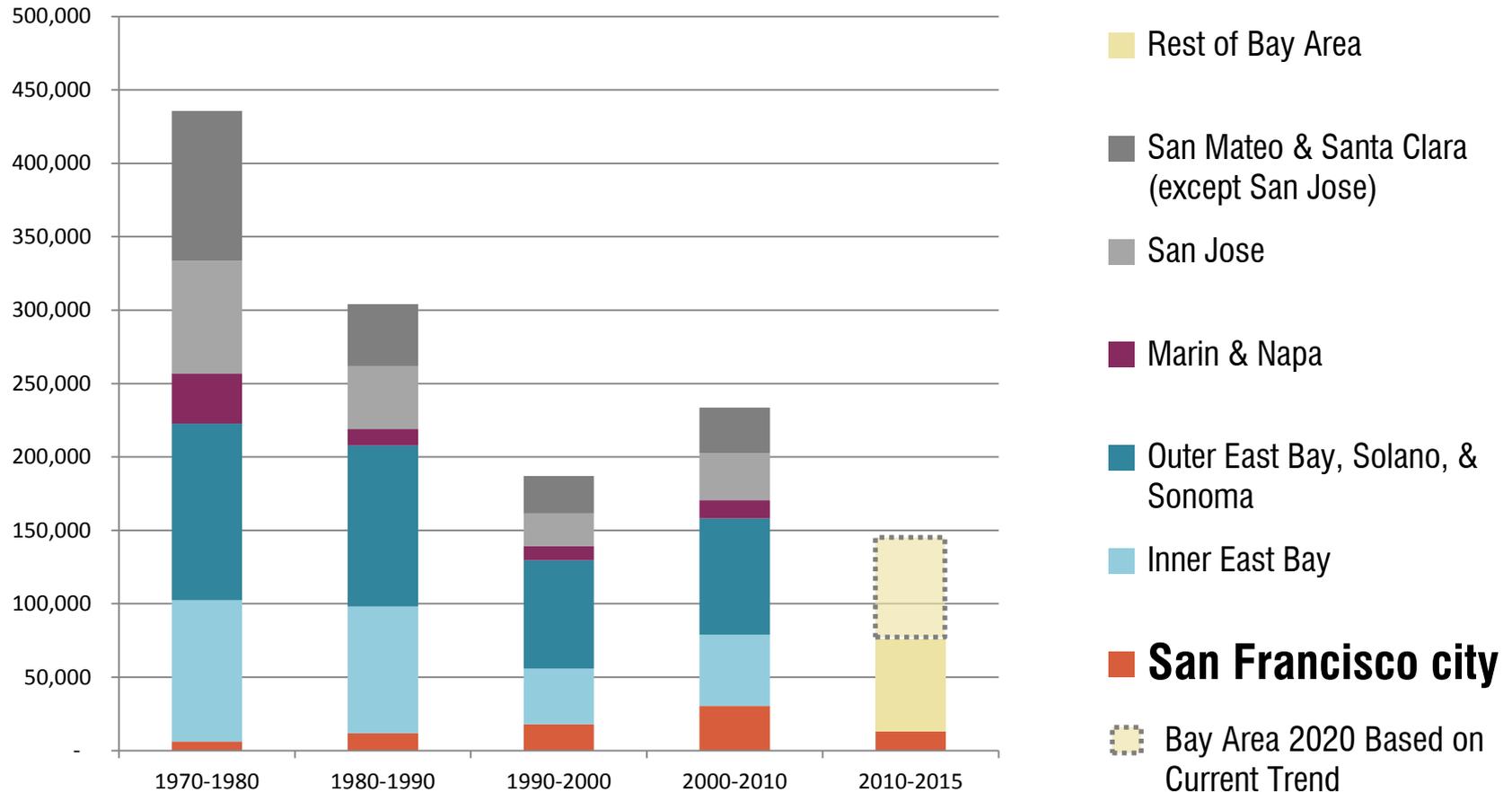
SAN FRANCISCO HOUSING STOCK



MOST HOUSING UNITS IN SAN FRANCISCO WERE BUILT BEFORE 1950.



HOUSING PRODUCTION HAS ALSO DECLINED IN THE BAY AREA



Source: SF Planning Analysis of US Census and ACS Data

HOUSING & THE PRIVATE MARKET

- Most land for housing and commercial uses is owned by **private property owners**.
- Housing is then built by private developers and owners: individuals & families, real estate companies, etc.
- In the United States, housing, though a **necessity**, is treated as a commodity and vehicle for investment.

MEDIAN YEAR BUILT: 1947





4690

OpenSFHistory.org

Mission Near Foote, 1915



1977-2-24-26 Proposed ALEMANY BLVD East from Foote Ave.

OpenSFHistory.org

Alemany & Foote, 1926



**EXCELSIOR
OUTER MISSION**

NEIGHBORHOOD STRATEGY

HOMEOWNERSHIP & RENTERS

18,270

HOUSING UNITS
in Excelsior and Outer Mission

vs. 383,680 citywide

17,610

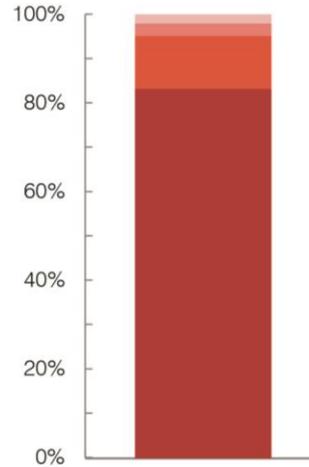
HOUSEHOLDS

vs. 353,290 citywide

13,400

FAMILY HOUSEHOLDS

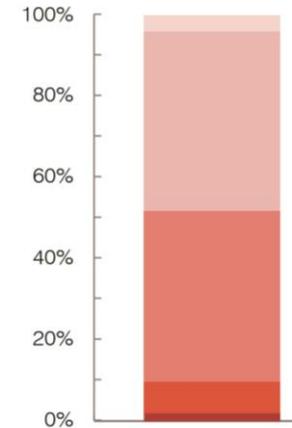
Unit Mix
Total Units



EXCELSIOR/OUTER
MISSION

- Single family housing
- 2-4 units
- 5-9 units
- 10-19 units
- 20 units or more

Number of Bedrooms



EXCELSIOR/OUTER
MISSION

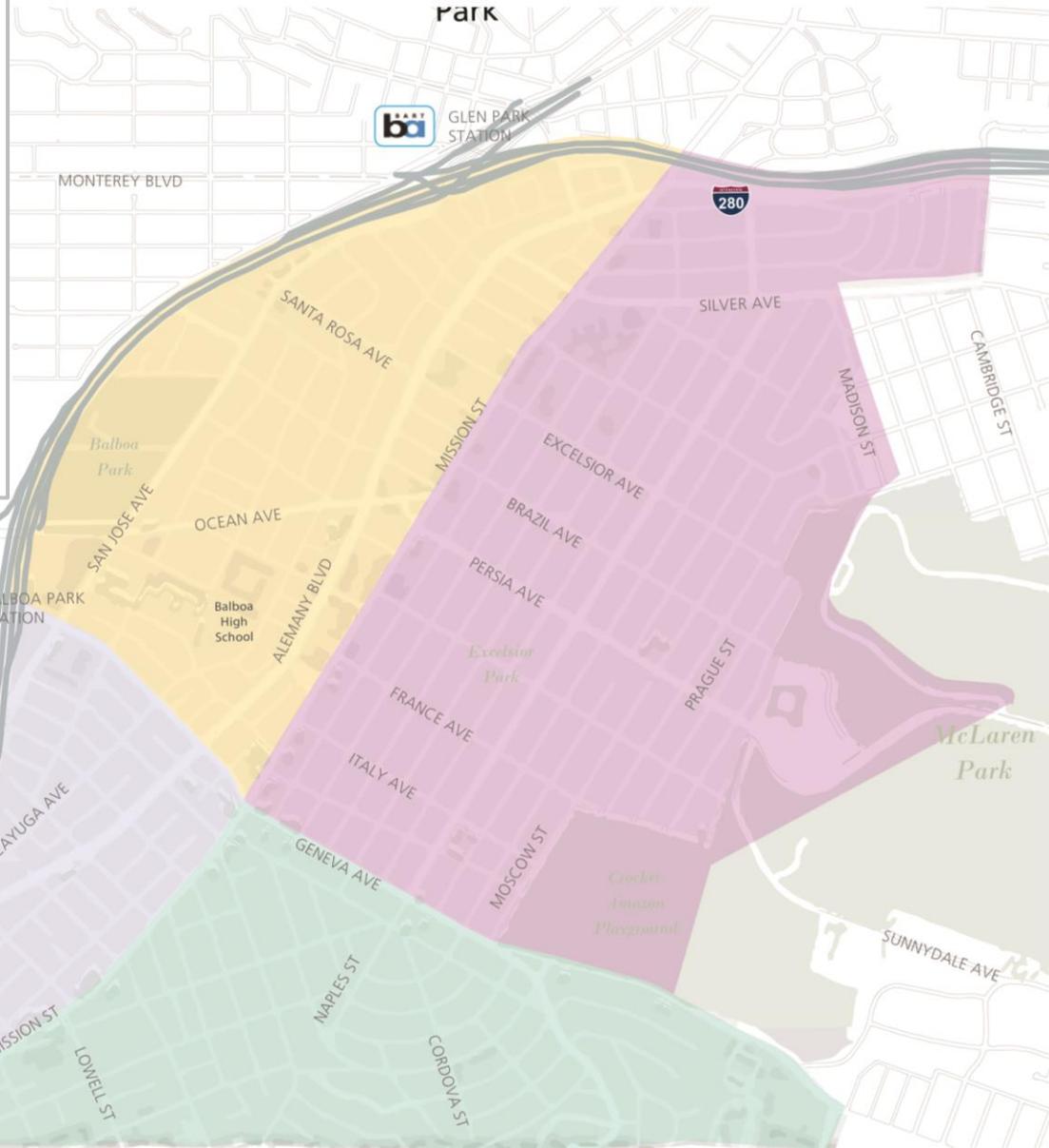
- No bedroom
- 1 bedroom
- 2 bedroom
- 3-4 bedroom
- 5 bedrooms or more

Source: US Census American Community Survey 2011-2015.

MEDIAN LIST PRICES AND RENT OF SINGLE-FAMILY PROPERTIES

	MEDIAN HOME VALUE	MEDIAN RENT
 Excelsior	\$876,200	\$3,759
 Crocker Amazon	\$867,500	\$3,691
 Mission Terrace	\$990,300	\$4,107
 Outer Mission	\$905,800	\$3,605
Zip Code 94112	\$917,500	\$3,816
San Francisco	\$1,194,300	\$4,285

Source: Zillow Home Value Index Summary, Zillow Rental Index Summary (July 2017)



HOMEOWNERSHIP & RENTERS

Owners

Tenure by Household



Source: US Census American Community Survey 2011-2015.

ROLE-PLAY!

DISCLAIMER: This story is for illustrative purposes only. It does not reflect an actual development project in the City of San Francisco.



TODAY'S CAST...IN ORDER OF APPEARANCE

(Drum roll please...)

Real estate
developer 1



Real estate
developer 2



City
planner



Property
owner



Architect



General
contractor



Bank loan
officer



Uncle Steve



SCENE



FINDING THE FANTASTICAL PROPERTY



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CHARACTERS



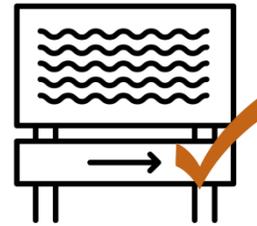
“You won’t believe it!...”



+



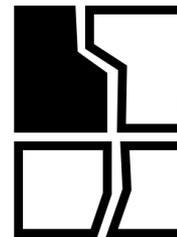
Benefits:



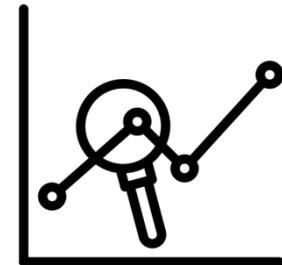
Current condition:



Information needed:



+



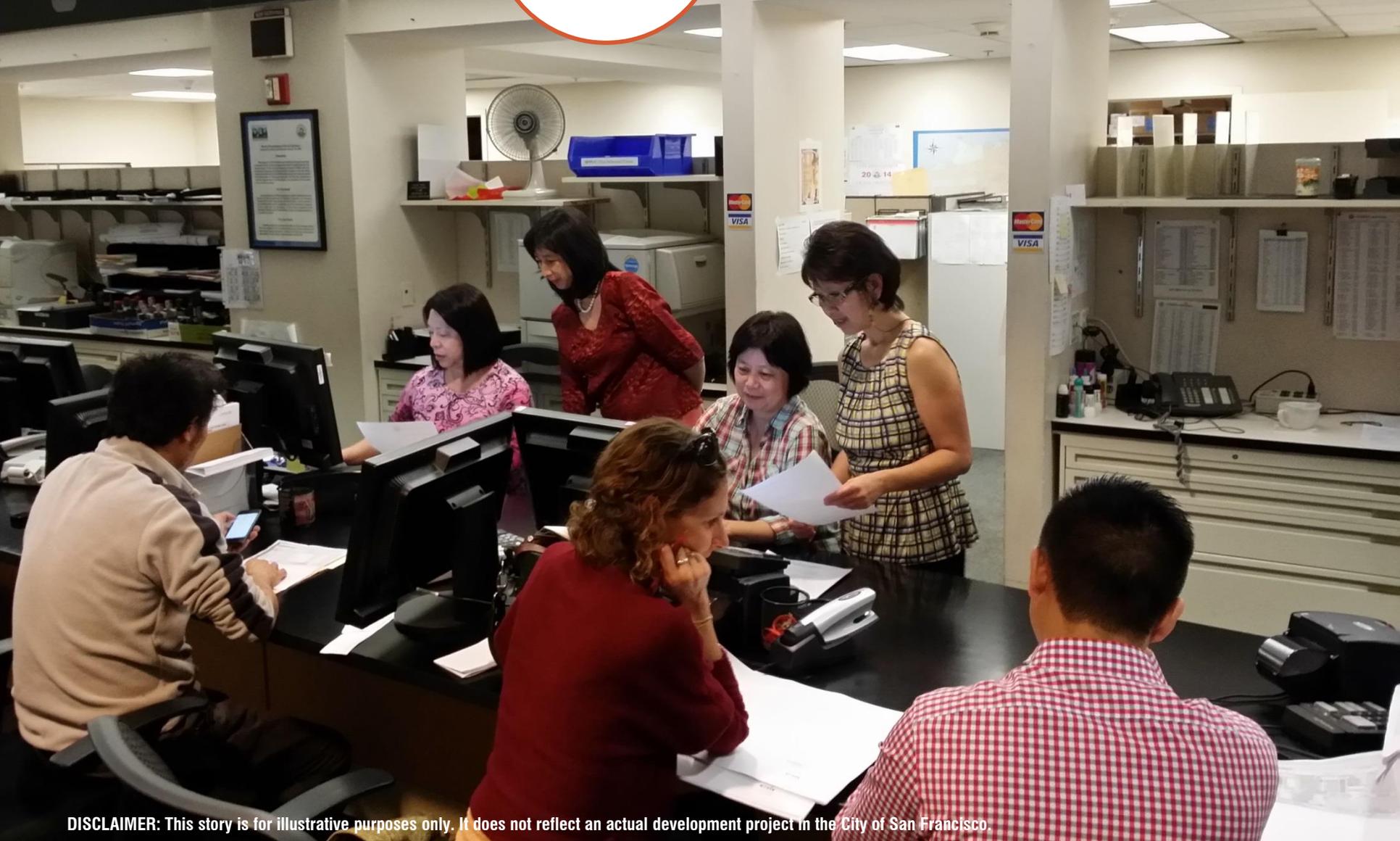
ZONING

RENTS IN THE MARKET

SCENE

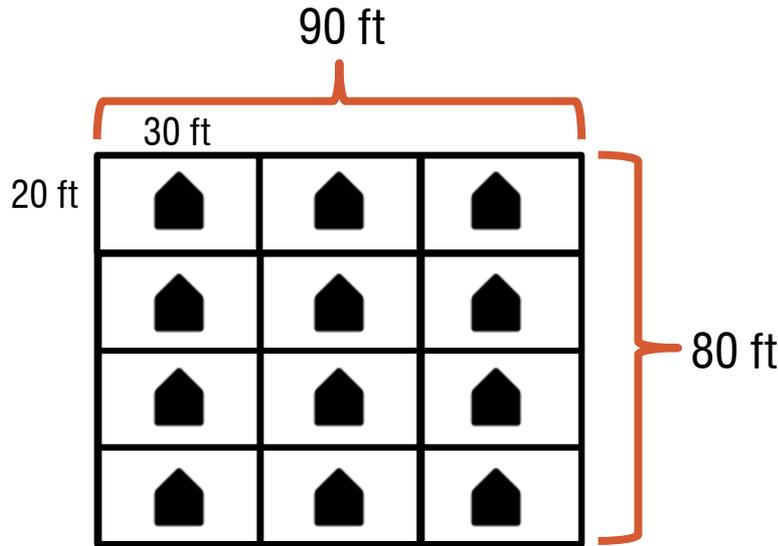


PASSING WITH THE PLANNER

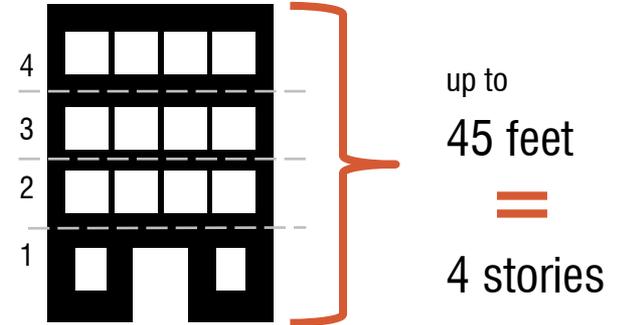


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CHARACTERS



Zoning restrictions:



Site area:

7,200 sq ft

Unit density:

600 sq ft

= 12 units

 **1 unit**

CHARACTERS



TOTAL
12 units

1 Below Market Rate Unit

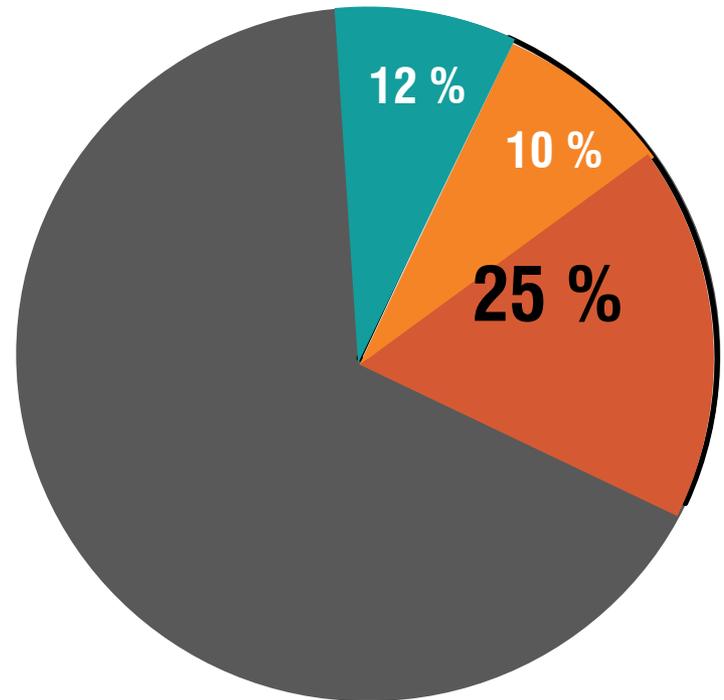
3 two + three bedroom units

1 three bedroom unit

2 two-bedroom units

Pro-forma

# of Units	12
Below Market Rate	1
Two-bedroom Units	2
Three-bedroom Units	1
Maximum height	45 feet
# of Stories	Maximum 4



SCENE



SERIOUS (HOUSING) BUSINESS



CHARACTERS



Rent per sq ft:

\$1.00

Total # of units:

12

Cost per unit:

\$100,000

Total Project Cost:

\$1,200,000

Pro-forma

# of Units	12
Below Market Rate	1
Two-bedroom Units	2
Three-bedroom Units	1
Maximum height	45 feet
# of Stories	Maximum 4

SCENE



LANDING A LOAN



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CHARACTERS



Total project cost

\$1,200,000

Requested loan/debt 70% of total project cost

\$840,000



Debt service (interest rate):
4.5% → \$37,800

Cash needed from equity investors

\$360,000

Pro-forma

# of Units	12
Below Market Rate	1
Two-bedroom Units	2
Three-bedroom Units	1
Maximum height	45 feet
# of Stories	Maximum 4
Rent per sq ft	\$1.00
Cost per unit	\$100,000
Land cost	
Planning Permits	
Finance costs	
General Contractor	
Architect	
Total project cost	\$1,200,000
Gross income (GI)	\$144,000
Expenses (35% of GI)	\$50,400
Net operating income	\$93,600
Debt Service (4.5%)	\$37,800
Total Cash Flow per year	\$55,800

SCENE



UNDERSTANDING EQUITY WITH UNCLE STEVE



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CHARACTERS



Equity Investor

Someone who has access to cash and will invest money into a project hoping to make a return on that money.

CHARACTERS



Uncle Steve's

Expectations

Total return
on investment **7%**
(over 7 years)

Annual return
on investment **\$60,958**

VS.

Developer's ~~**55,800**~~

Reality

Total Cash flow
per year **-\$5,158**



Pro-forma

# of Units	12
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Cash to Equity Investors (7%)	\$60,958
Total Cash Flow per year	\$-5,158
Debt (70%)	\$840,000
Equity contribution (30%)	\$360,000

To be continued...



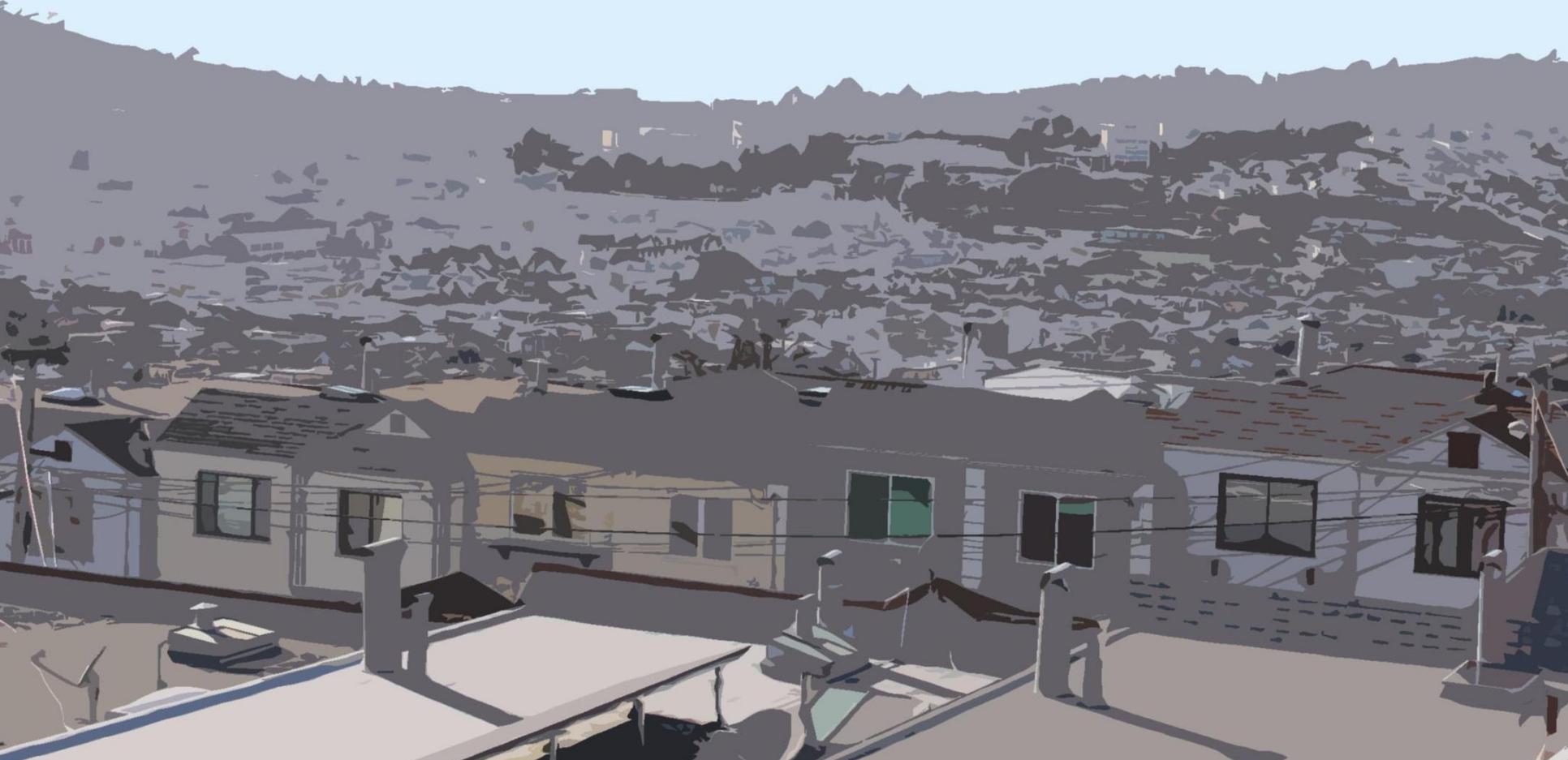
2 Working Group members experience a version of this drama in their day-to-day. Let's find out more from them!

CHAT WITH THE DEVELOPERS

PRO-FORMA

Pro-forma	
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ZONING

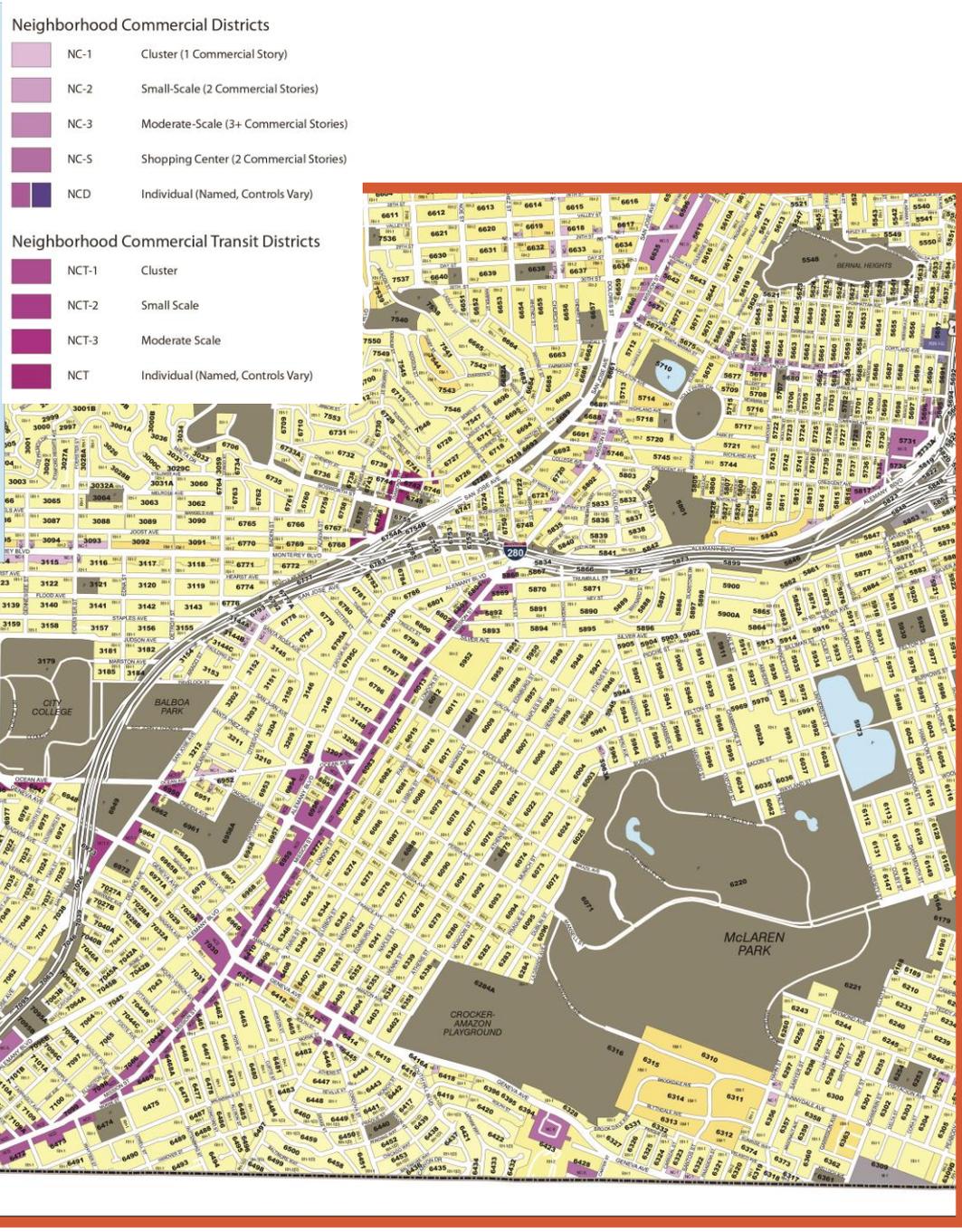
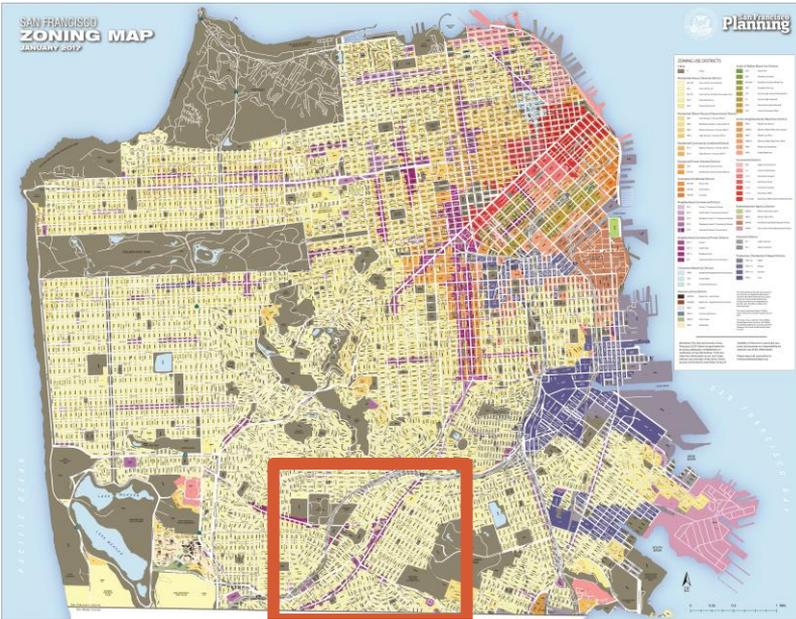


WHAT IS ZONING?

The division of an area into zones, as to restrict the number, scale, and types of buildings and their uses.

Impact of Zoning

- Each parcel in San Francisco is authorized for certain uses.
- Authorized for everything from Single-Family Home to multi-family buildings
- One use is housing
- Height & Bulk
- Number of Units



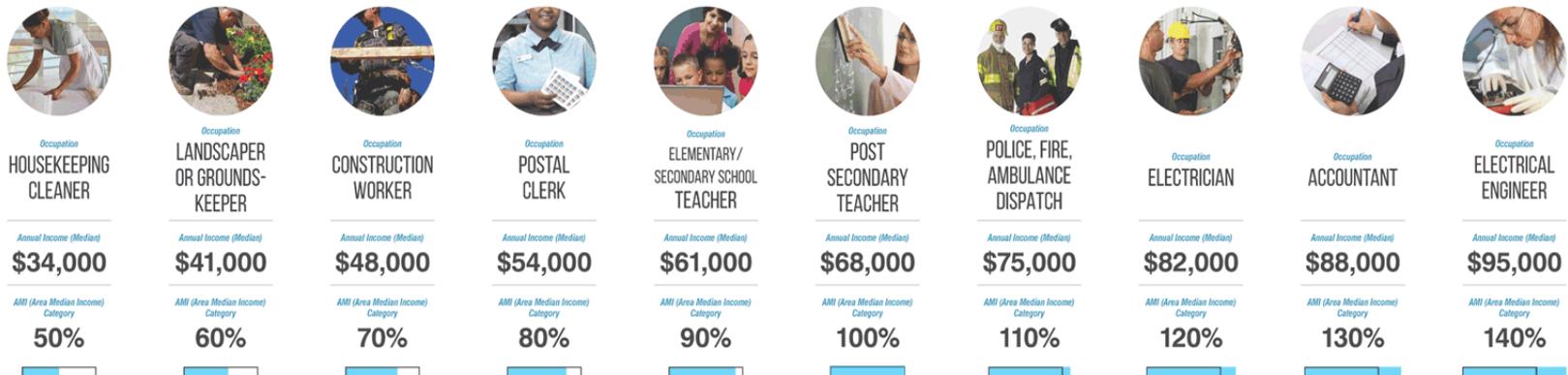
AFFORDABLE HOUSING

- **Why we need to subsidize housing?**
- There is a **gap** between **rents** that individuals and families can *afford to pay* and the **cost to build and maintain the housing**.

Who is affordable housing for?

AFFORDABLE RENTS AND SALES PRICES		 1 PERSON	 2 PEOPLE	 3 PEOPLE	 4 PEOPLE
VERY LOW-INCOME HOUSEHOLDS <i>Earn up to 50% of Area Median Income</i>	Rental	\$900	\$1,000	\$1,100	\$1,300
	Owner	\$96,000	\$113,000	\$130,000	\$147,000
LOW-INCOME HOUSEHOLDS <i>Earn up to 80% of Area Median Income</i>	Rental	\$1,400	\$1,600	\$1,800	\$2,000
	Owner	\$197,000	\$228,000	\$260,000	\$291,000
MODERATE-INCOME HOUSEHOLDS <i>Earn up to 120% of Area Median Income</i>	Rental	\$2,100	\$2,400	\$2,700	\$3,000
	Owner	\$331,000	\$382,000	\$432,000	\$483,000
MIDDLE INCOME HOUSEHOLDS <i>Earn up to 140% of Area Median Income</i>	Rental	\$2,500	\$2,800	\$3,200	\$3,500
	Owner	\$398,000	\$458,000	\$519,000	\$579,000

ANNUAL INCOME, BY PROFESSION



Source: San Francisco Mayor's Office of Housing & Community Development, 2015

Note: Incomes may have increased slightly in 2016, but AMI categories still generally correspond.





Occupation
**HOUSEKEEPING
CLEANER**

Annual Income (Median)
\$34,000

AMI (Area Median Income)
Category
50%



Occupation
**LANDSCAPER
OR GROUNDS-
KEEPER**

Annual Income (Median)
\$41,000

AMI (Area Median Income)
Category
60%



Occupation
**CONSTRUCTION
WORKER**

Annual Income (Median)
\$48,000

AMI (Area Median Income)
Category
70%



Occupation
**POSTAL
CLERK**

Annual Income (Median)
\$54,000

AMI (Area Median Income)
Category
80%



Occupation
**ELEMENTARY/
SECONDARY SCHOOL
TEACHER**

Annual Income (Median)
\$61,000

AMI (Area Median Income)
Category
90%



Occupation
**POST
SECONDARY
TEACHER**

Annual Income (Median)
\$68,000

AMI (Area Median Income)
Category
100%



Occupation
**POLICE, FIRE,
AMBULANCE
DISPATCH**

Annual Income (Median)
\$75,000

AMI (Area Median Income)
Category
110%



Occupation
ELECTRICIAN

Annual Income (Median)
\$82,000

AMI (Area Median Income)
Category

120%



Occupation
ACCOUNTANT

Annual Income (Median)
\$88,000

AMI (Area Median Income)
Category

130%

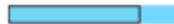
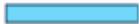


Occupation
**ELECTRICAL
ENGINEER**

Annual Income (Median)
\$95,000

AMI (Area Median Income)
Category

140%



EXAMPLE OF WHY WE NEED AFFORDABLE HOUSING

Monthly Market Rent	Annual Market Rent	50% Area Median Income (or less)	2-Person Household, Affordable Rent	Annual Affordable Rent	Gap (Annual Market Rent – Affordable Rent)
\$4,285	\$51,420	\$34,000	\$1,000	\$12,000	\$39,420

Pro-forma from Role Play (above)	
# of Units	12
Below Market Rate	1
Two-bedroom Units	2
Three-bedroom Units	1
Maximum height	45 feet
# of Stories	Maximum 4
Rent per sq ft	\$1.00
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Cash to Equity Investors (7%)	\$60,958
Total Cash Flow per year	\$-5,158
Debt (70%)	\$840,000
Equity contribution (30%)	\$360,000

Affordable Housing Differences from Market Rate

- The rents are so depressed that there is more equity in an affordable project.
- Sources of equity aren't "investors" seeking a return; they are primarily government

SOURCES OF FUNDING FOR AFFORDABLE HOUSING

FEDERAL	STATE	LOCAL
Low Income Housing Tax Credits	Multi-family Housing Program	Bond
Tax Exempt Bonds	State Tax Credit Program	Housing Trust Fund
Grants	Various Grant & Loan Programs	Impact Fees
Loans	In-fill Infrastructure Grants	“In-Lieu” Fees or On-Site Inclusionary Units
Housing Choice Vouchers (Section 8)	Farm Worker Housing Program	
Community Development Block Grants	Transit Oriented Development	
HOME	Housing Bond	
Section 202 & 811	Mental Health Services Act	
	No Place Like Home	

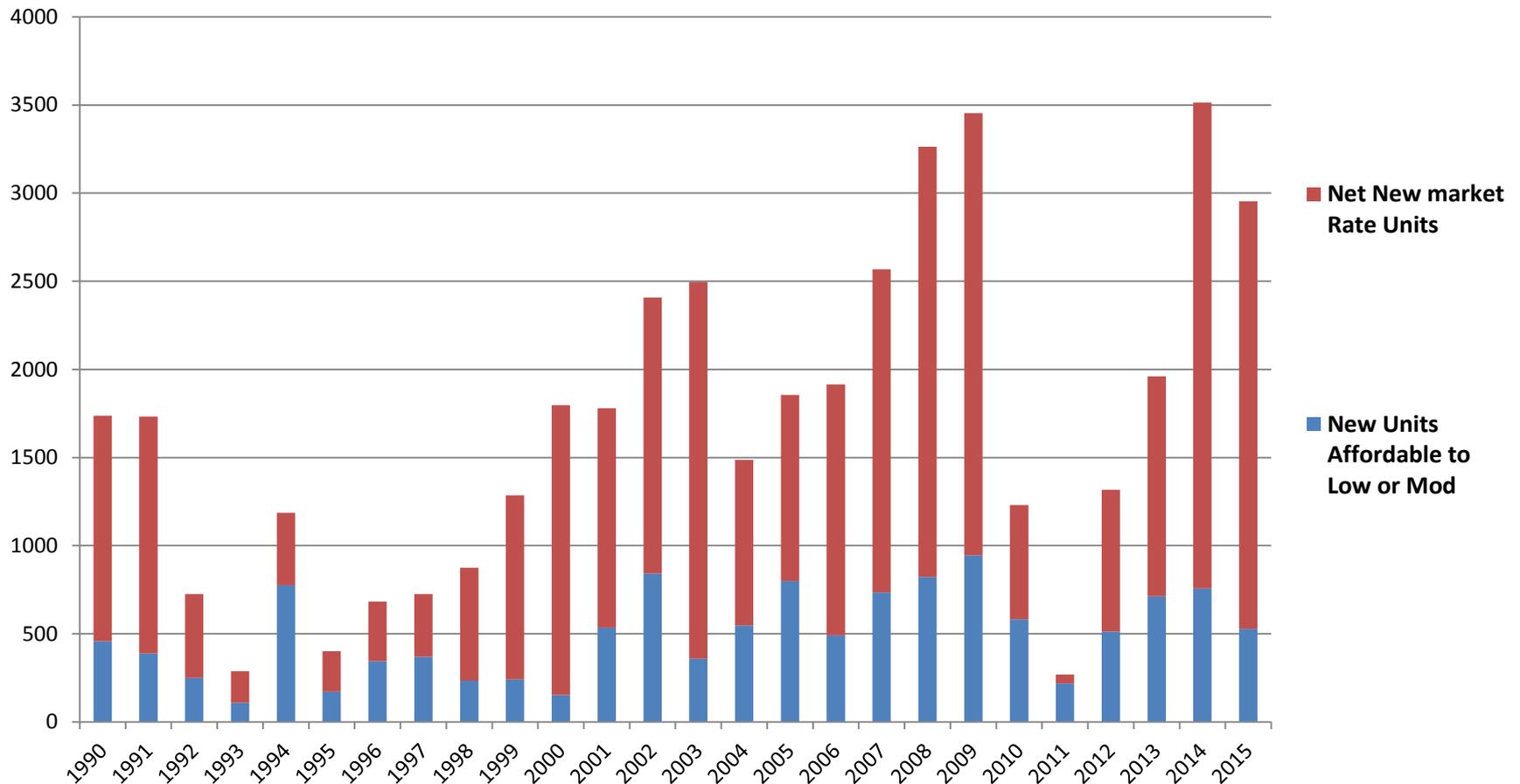
HIGH COST OF SUBSIDIZED HOUSING

- \$1 million of Mayor's Office of Housing and Community Development (MOHCD) subsidy = 4 units
 - \$250,000 - \$350,000 of local subsidy
- Total per unit costs around \$600,000
- So affordable housing developers must still identify more sources of subsidy to build housing.

MAGNITUDE OF SUBSIDY

- Show how much money will it cost to build 1,000 units of affordable housing?
 - $\$600,000 \times 1,000 = \mathbf{\$600,000,000}$
- How much subsidy would MOHCD need?
 - $\$250,000 \times 1,000 = \mathbf{\$250,000,000}$
- Which would be % of the City's total housing stock.

HOUSING PRODUCTION IN SAN FRANCISCO, 1990 - 2015



From 1990 – 2015 we have produced an average of 500 units of affordable housing a year

IMAGES OF AFFORDABLE HOUSING 1100 OCEAN AVE - MERCY HOUSING



CROCKER AMAZON SENIOR APT MISSION HOUSING DEVELOPMENT COPR.



ARMSTRONG SENIOR APTS - 3RD STREET - BRIDGE HOUSING



NORTH BEACH PLACE - BRIDGE HOUSING





Cindy Heavens, Mayor's Office of Housing and Community Development

CHAT WITH A DEVELOPER

STRATEGIES

Strategy

How It Helps

1

Constructing more housing units through (1) subsidy for affordable units, and (2) market-rate developments, (3) leveraging market rate to construct additional affordable.

By constructing more affordable housing units, tenants can have rental or mortgage prices that match their financial capacity.

2

Develop a strategy and mechanism to **increase housing capacity of single family homes** (think additions, in-law units, etc.).

Single-family homes can become 2 or 3 family homes with out disrupting the character and fabric of the neighborhood.

3

Develop a **land strategy** for the development of 100% affordable housing.

Identifying some parcels that can become 100% affordable housing and working directly with those land owners can help facilitate a process that can take years. Potential locations are parking lots or excess land owned by community-serving organizations and the City.

STRATEGIES

	Strategy	How It Helps
4	Encourage use of density bonus programs , like HOME-SF, State Density Bonus, etc. to build more housing units.	Density bonus programs—which currently exist—could be tweaked to make them more feasible and attractive.
5	Develop and increase funds dedicated to construction and operation of affordable housing .	Filling the gap that allows families to afford homes requires funding.
6	Appropriately and responsibly expedite the development of housing	Create a neighborhood specific zoning plan and/or use state law to establish a " Sustainability District " in the neighborhood.

CONSTRUCTING MORE AFFORDABLE UNITS

Subsidy of 100% Affordable

- Uses a variety of sources (tax credits, grants, fees paid by developers) to construct new buildings for low income San Franciscans.
- Through these programs, can serve very-low income individuals and families
- Need subsidy to build and operate.

Leveraging Market Rate

- When building a new building, developers also build units that serve low and moderate income households
- Required by law to build or pay a fee
- Under HOME-SF, if developers build 30% below-market-rate (BMR) developers have a 2 additional stories.

DEVELOP A STRATEGY AND MECHANISM TO INCREASE HOUSING CAPACITY OF SINGLE FAMILY HOMES

Opportunity

- Accessory Dwelling Units
- Using buildable Envelope to Add Units
 - Vertical Addition
 - Finishing First Floor
- Allows homeowners to retain property, while providing housing and source of income.
- In many cases, lower cost per unit than new construction.



DEVELOP A STRATEGY AND MECHANISM TO INCREASE HOUSING CAPACITY OF SINGLE FAMILY HOMES

Examples of Vertical Additions Maintain Neighborhood Character



DEVELOP A LAND STRATEGY FOR THE DEVELOPMENT OF 100% AFFORDABLE HOUSING.

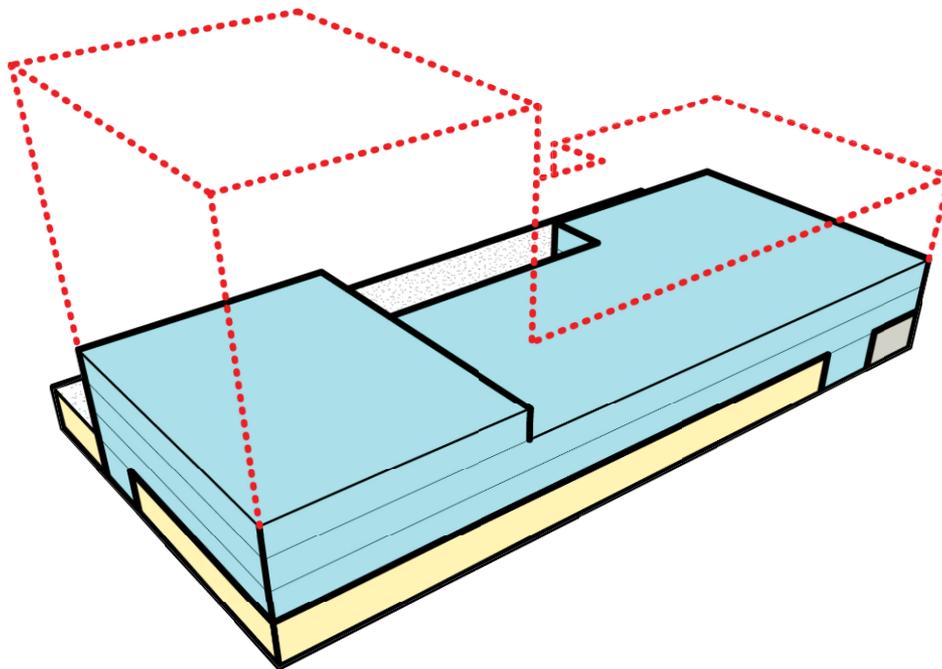
Opportunity

- Community-based organizations (such as churches or child care) may have excess space that can become housing (parking lots, etc).
- Can provide some revenue to the organization as well as housing.

Challenges

- There is a cost to acquiring and holding land.
- Can be risky to acquire land without funding committed to construction.
- Can be challenging to work with multiple parties to develop property.
- “Excess” land is in the eye of the beholder.

ENCOURAGE USE OF DENSITY, INCLUDING BONUS PROGRAMS, TO BUILD MORE HOUSING UNITS.



BASE CASE

Building Envelope

- Existing Height Limit
- Commercial and Parking
- Residential, Under Existing Controls

NC-3

130-E

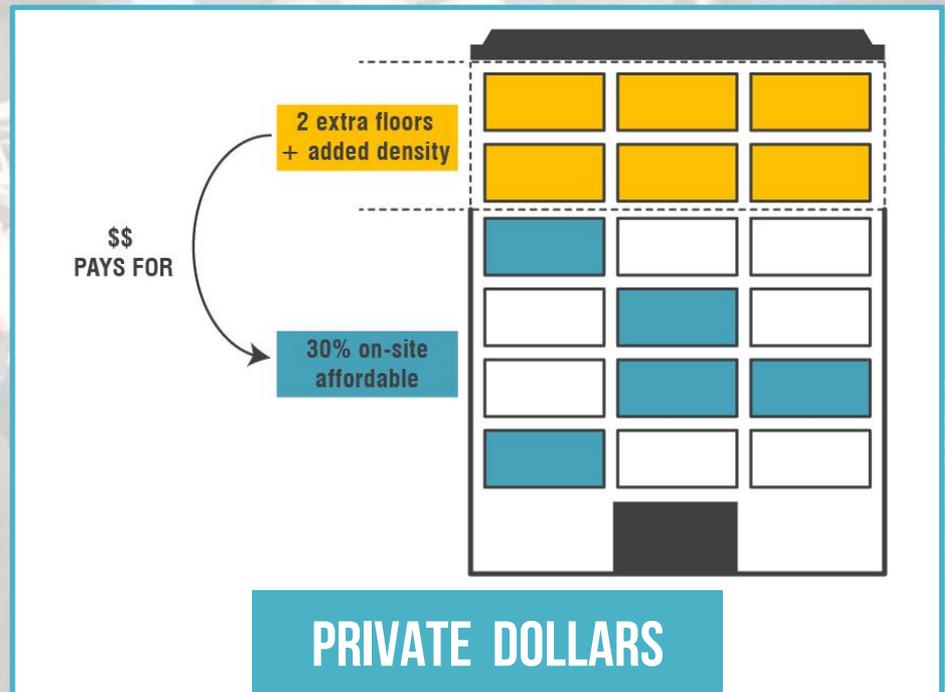
35,000 sf Lot Area

Density: 1/600 sf

60 Units Allowed

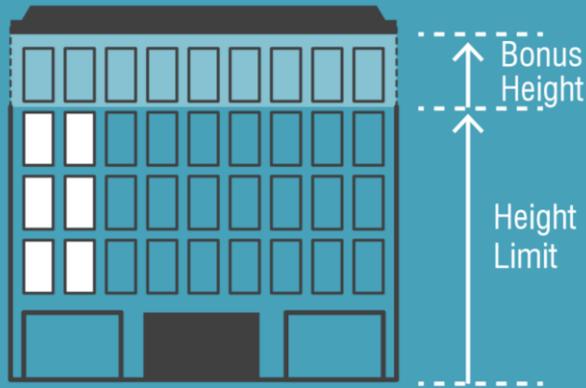
- Encouraging density allows more housing to be developed on a parcel of land.
- For example, building to the red dotted line instead of the yellow & blue boxes.

WHAT IS THE BENEFIT OF A DENSITY BONUS?



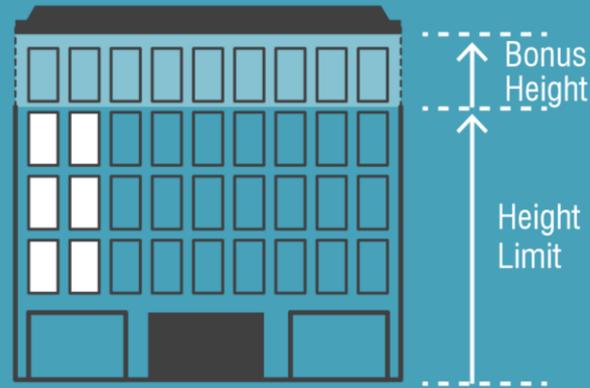
PROGRAM OVERVIEW

STATE INDIVIDUALLY REQUESTED



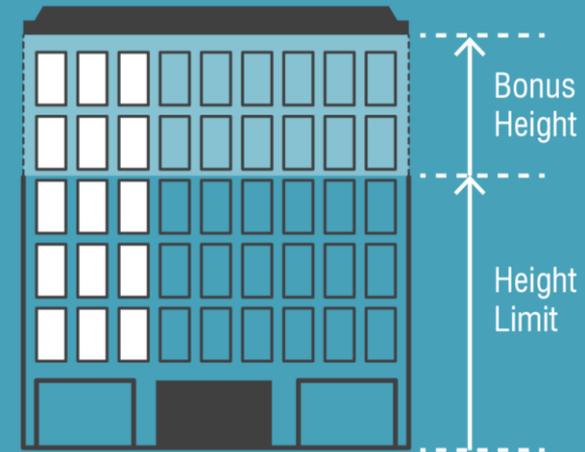
- Mirrors state law
- Applies broadly (even in Area Plans)
- Limited local discretion
- Offers 35% maximum bonus, incentives and concessions, waivers

STATE ANALYZED



- Hybrid program
- Strict eligibility requirements
- Offers 35% maximum bonus
- Pre-determined menu of incentives, concessions and waivers

HOME-SF



- Strict eligibility requirements
- Requires 30% on-site affordable
- Offers 2 extra stories and density de-control

DEVELOP AND INCREASE FUNDS DEDICATED TO CONSTRUCTION AND OPERATION OF AFFORDABLE HOUSING.

Some Local Sources

- Housing Bond
- In-lieu fees
- Annual Budget Process



APPROPRIATELY STREAMLINE THE DEVELOPMENT OF HOUSING

Corridor Specific Zoning Plan & Environmental Review

- Establish specific zoning for the Excelsior & Outer Mission Neighborhood Commercial District (and project area)
- Complete program level environmental review
- This requires time & funding

Sustainability District

- State law allows jurisdictions to establish housing sustainability districts.
- Very similar to a specific plan
- Requires 20% affordable units w/in the district, and prevailing wage.
- Allows program-level EIR to serve as environmental clearance for projects meeting sustainability district standards.



THANK YOU!

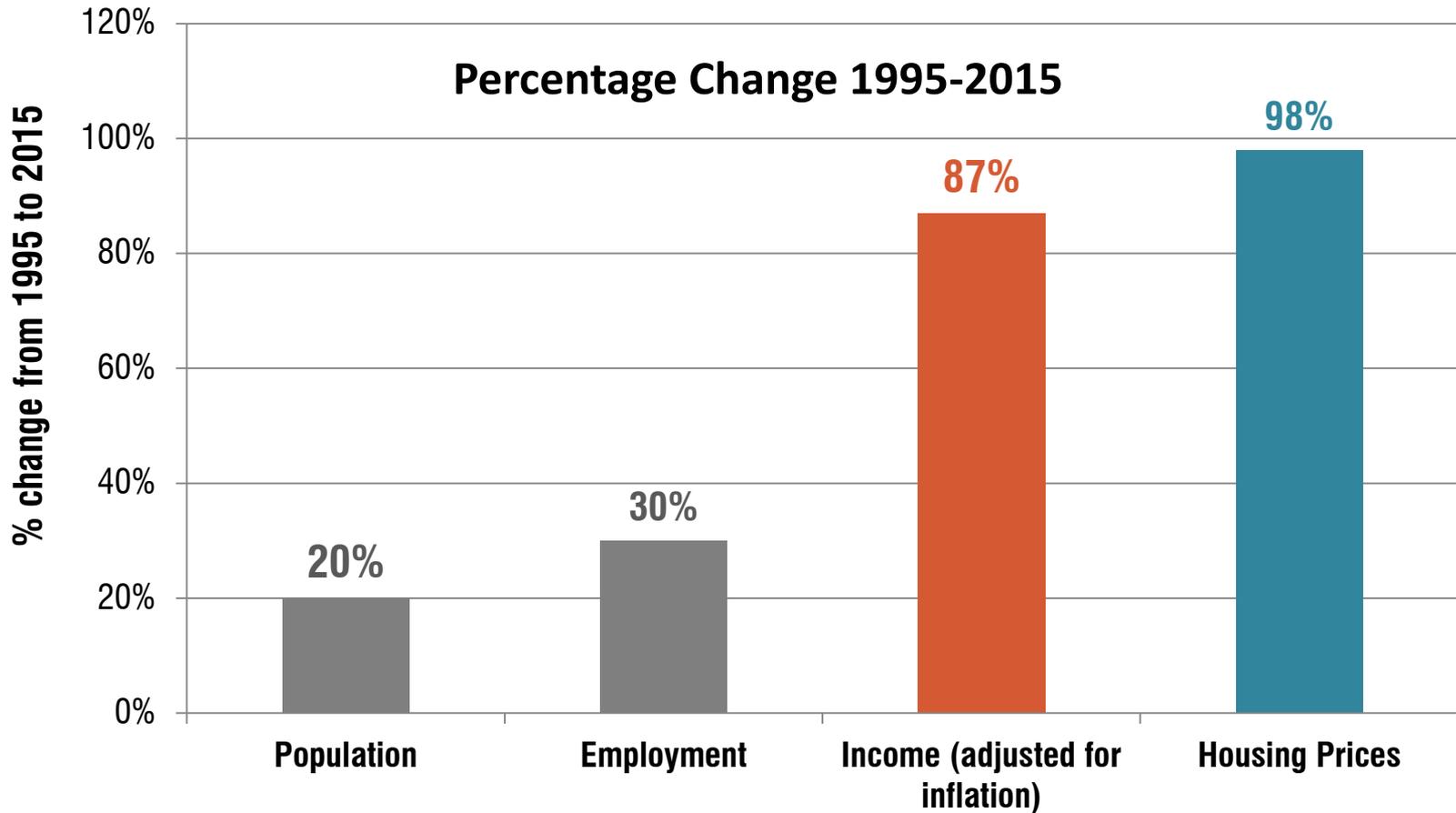


Rachael A. Tanner
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San Francisco
Planning

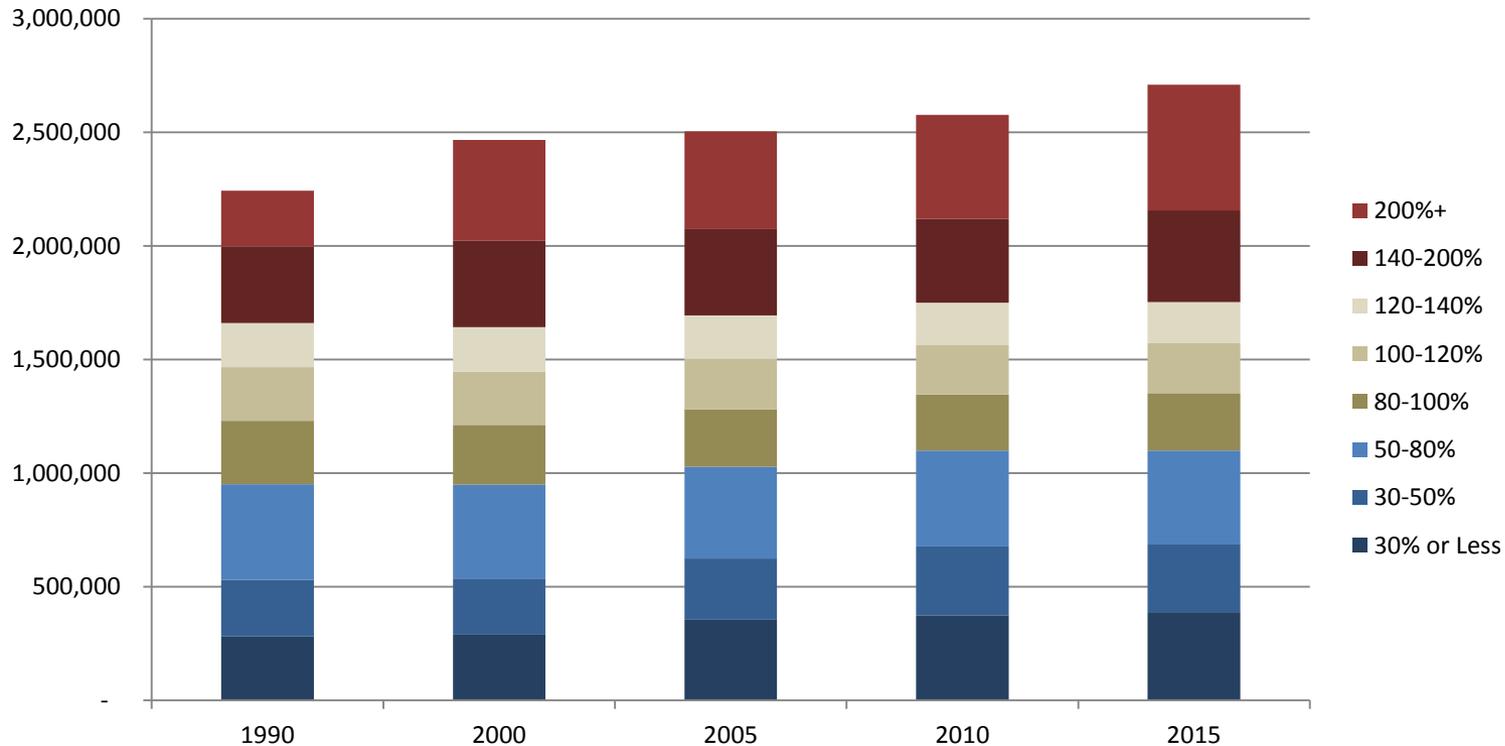
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FROM 1995 TO 2015 **INCOME GREW 3-4 TIMES FASTER** THAN EMPLOYMENT OR POPULATION DRIVING UP HOUSING PRICES



THE REGION ADDED OVER 465K HOUSEHOLDS SINCE 1990

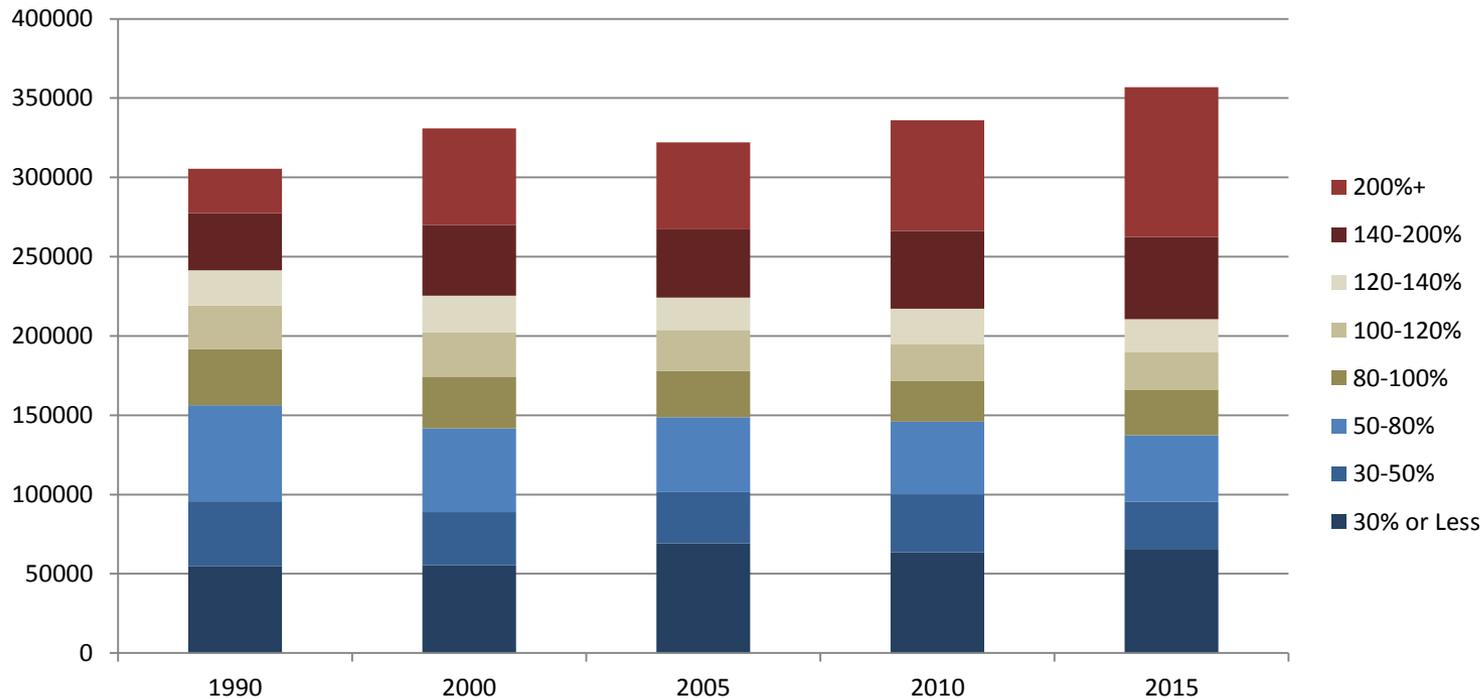
58% WERE HIGH INCOME (OVER 200% OF SF'S MEDIAN)



- Very low Income HHs, especially HHs earning 30% of AMI or less, increased
- Moderate and middle income HHs (80-140% of AMI) declined regionally
- The % of higher income HH growth exceeded the % of HH growth overall in SF and San Mateo

Source: SF Planning Analysis of IPUMS USA Data courtesy of IPUMS-USA, University of Minnesota, www.ipums.org.

SINCE 1990, SF GAINED 66K HIGH INCOME HOUSEHOLDS AND LOST 30K LOW & MIDDLE INCOME HOUSEHOLDS



- **High income household growth far exceeded RHNA estimates and “above moderate” unit production by over 30K**
- More high income households housed in existing housing stock
- Low and middle income households declined with greatest loss from 30-80% of AMI

Source: SF Planning Analysis of IPUMS USA Data courtesy of IPUMS-USA, University of Minnesota, www.ipums.org.

GOALS

1

Continue to be a neighborhood where **low and moderate income** San Franciscans can live.

2

Maintain and build **housing stock** that can serve existing residents, and welcome diverse new residents.

3

Develop and enhance the **commercial corridor** so that it serves working people, while also offering a range of goods and price points.

4

Be a neighborhood where diverse residents and visitors feel **welcome and at-home**.

5

Promote **relationship building and intercultural exchange** among the many different neighborhood stakeholders.