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September 6, 2016

Inclusionary Housing Technical Advisory Committee
San Francisco Office of the Controller
City Hall Room 316
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

RE: Inclusionary Housing TAC Summary of Conclusions and Recommendations

Dear Technical Advisory Committee Members,

Thank you for the opportunity to comment on the preliminary conclusions and recommendations developed by the Controller and the consultant team for your consideration. We appreciate the work you have put into this process and are pleased that the analysis developed by the consultants appears to be robust and thorough. We urge you to keep the following thoughts and principles in mind as you develop your recommendations to the Board of Supervisors.

1. It is critical that the TAC recommendations support economic feasibility while maximizing affordable housing production.

The April 27th, 2016 springing legislation (“Inclusionary Affordable Housing Fee and Requirements; Preparation of Economic Feasibility Report, Establishing Inclusionary Housing Technical Advisory Committee) which codified the policy resolution term sheet Resolution 79-16 states that, *“it shall be City policy to maximize the economically feasible percentage of affordable inclusionary housing in market rate housing development to create housing for lower and moderate/middle income household.”*

In the spirit of the legislation and this study, the TAC’s final recommendations should continue to emphasize the goal of maximizing the feasibility of producing below market rate housing without significantly impacting the overall production of housing.

2. Review land values for competing uses, such as office development or parking, to ensure that housing production isn’t discouraged.

In order to support an economically feasible inclusionary level, it is very important to look at all the factors that impact project viability, including construction costs, financing requirements and land values, all of which the TAC has reviewed. However, in looking at residual land values, it is important to consider what the competing uses are for the land. For example, would setting a higher inclusionary requirement encourage a parcel zoned mixed use to develop as office? Or would it be more desirable to keep the parcel in its

current use, such as parking? Analyzing land values relative to other uses would ensure that housing production would not be discouraged.

3. The assumptions of this analysis are aggressive and therefore policymakers should proceed with caution when establishing the initial inclusionary levels.

While the residual land value analysis and its inputs are good, the assumptions undergirding the analysis are consistently on the aggressive side, including assumed return on cost and operating assumptions. Therefore, we believe that the TAC should recommend that the initial inclusionary levels be set at the lower end of the “Uncertain” yellow-zone portions of the Controller’s analysis (“Residual Land Value Per Unit”), i.e. 14% for rental and 17% for condos. Levels can then be scaled up over time per the Controller’s recommendations.

4. Inclusionary requirement increases should be phased in over time and those increases should be suspended or rolled back during recessionary periods.

Certainty and predictability are key, but retaining some ability to respond to a substantial economic decline is necessary to ensure that we continue to regularly produce housing in San Francisco, even in economic downturns.

5. While we agree it is appropriate to update fees at this time, that update must also take financial feasibility into account.

As the Controllers’ draft recommendations note, it makes sense to study fee increases that generate additional fee revenue but do not necessarily change the choices that developers are making. San Franciscans are better served by in-lieu fees from high-end condominium developments (the projects most likely to fee out) rather than on-site BMR condo units.

6. If neighborhood-specific requirements are to be analyzed, it is important to understand both where the requirements should be higher and where they should be lower relative to the baseline.

We understand there is some interest in setting higher inclusionary levels in the Mission and other neighborhoods that are grappling with gentrification pressures resulting from intense demand for housing. If this is studied, the flip side should also be studied –would relatively lower inclusionary requirements benefit neighborhoods with lower land values that would like to see more investment and activity?

7. This residual land value analysis does not support charging higher fees for taller buildings.

The increased construction cost and lengthier construction period associated with high-rise building types means that tall buildings cannot necessarily afford to provide more inclusionary units.

8. While widespread application of the state density bonus program could result in higher residual land values, it is too early to assume that all or most developers will utilize the state program, especially with the future of the local density bonus program still unresolved.

As the Controller's report recommends, we support future study of alternatives to the base scenario as the actual implementation of AB2501 becomes clearer.

Thank you again for your work on this important study. We look forward to participating in future discussions. Should you have any questions, please do not hesitate to contact me at (415) 644-4884 or kwang@spur.org.

Sincerely,

A handwritten signature in black ink, appearing to read 'KWANG', with a stylized flourish at the end.

Kristy Wang
Community Planning Director