

**Affordable Housing Exemption for Qualified
Student Housing:
Economic Impact Report**

Office of Economic Analysis

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Item #101095



Executive Summary

The proposed legislation would exempt new student housing from the City's Inclusionary Housing requirement if specific criteria are met, including that at least 30% of the housing is reserved for students eligible for, or receiving, need-based financial aid.

Eliminating the inclusionary affordability requirement will substantially lower the cost to develop new student housing, increasing its financial feasibility, resulting in a projected increase in student housing supply.

The OEA estimates that the legislation will stimulate the development of about 44 additional student housing units per year compared to baseline projections absent the ordinance. In addition, 87 more jobs and about \$7 million more in gross city product in Year 1 is attributed to the legislation.

Over 20 years, the legislation is anticipated to result in 875 additional student housing units, expanding the City's rental housing supply and exerting marginal downward pressure on rental rates.



Summary of Existing Law and Proposed Legislation

- Under existing law, student housing is exempt from the City's Inclusionary Housing Program requirements if it is located on the same property as an educational institution. There is no exemption from the inclusionary requirement for student housing located "off-campus."

- The legislation would exempt certain qualified education institutions from the inclusionary affordable housing requirements for newly constructed student housing off-campus, if certain conditions are met, including:
 - the school has an Institutional Master Plan (IMP) on file with Planning,
 - the new development will not result in a loss of housing units,
 - 30% of the beds be made available for students eligible for, or receiving, need-based financial aid, and
 - A notice of special restrictions is recorded, ensuring compliance with legislation.



Summary of Economic Impacts

- The proposed ordinance will reduce development costs for qualified student housing, resulting in about 44 more student housing units developed per year than without the legislation.
- The impact of the legislation on employment and the impact on the City's gross domestic product was estimated on an annual basis with OEA's REMI model, summarized in Appendix C.
- Compared to baseline projections, the additional student housing development stimulated by the legislation is estimated to generate 87 more jobs and about \$7 million more in gross city product in Year 1.
- Over 20 years, the legislation will result in 875 additional student housing units compared to baseline projections absent the legislation.
- The additional 875 housing units will expand the City's rental housing supply, which will exert marginal downward pressure on rental rates.



Student Housing Background

- Student housing costs (rental rates) are set by the schools on a per student basis and vary depending on the type of living arrangements (group housing, private apartment, shared rooms, etc.).
- There is no rent discount for students receiving financial aid. However, housing is a qualified use of financial aid, meaning these funds can be used to pay the difference between rent charged by the school and what the student can afford.
- For those schools reporting financial aid eligibility, the range of students qualifying for need-based financial aid ranges from 35% to 80% of student population, well above the minimum 30% requirement specified in the legislation, implying this requirement should not be an obstacle for schools seeking to qualify for the proposed inclusionary exemption.



Economic Impact Factors

- Decreasing the inclusionary affordability requirement can lower the cost of new student housing development, impacting its feasibility and potentially increasing construction starts.
- Thus the economic impacts of the proposed legislation will affect:
 - Housing Supply - the supply of student housing as measured by projected housing starts;
 - Housing Prices – expanding student housing supply will exert downward pressure on rental rates/values; and,
 - Employment and Gross City Product - more units constructed will increase direct and indirect employment associated with development of student housing and add to San Francisco’s gross city product.



Impact of Legislation on Student Housing Supply

- Changing the off-site/In-lieu inclusionary fee requirement from 20% to 0% for student housing will decrease development costs by about \$46,000 per unit, on average, or approximately 16% of finished unit value, as illustrated on the following slide.
- The long-term impact of the legislation's change in development cost depends on the elasticity of supply for housing.
- Elasticity of supply in this context is a measure of the sensitivity of the quantity of housing supplied to changes in housing price/value (or a decrease in costs equivalent to price/value).
- By statistically comparing the impact of housing prices on housing permits in San Francisco, the OEA estimates the elasticity of supply at 2.2, indicating a 1% increase in price/value (or a decrease in costs equivalent to 1% of price/value) results in a 2.2% increase in construction activity.
- Applying the elasticity factor of 2.2 to the decreased costs associated with the legislation, results in an estimated 34% increase in student housing starts, as shown.



Lower Inclusionary Requirements are Projected to Increase Student Housing Starts by 34%

| | Baseline | Policy |
|---|-----------|-------------------|
| <u>Development Costs</u> | | |
| Direct Cost (per Gross Sq.Ft.) (1) | \$220 | |
| + Indirect Costs (% of Direct/Total) | 40% | |
| = Development Cost per Gross Sq.Ft. | \$308 | |
| x Average Unit Size (Net sq.ft./Gross sq.ft.) (2) | 620 | |
| = Average Development Cost per Unit | \$224,500 | \$224,500 |
| + Average Housing In-Lieu Fee per Unit (3) | \$45,900 | \$0 |
| = Cost per Unit including Inclusionary Fee | \$270,400 | \$224,500 |
| Average Cost Differential per Unit: Policy - Baseline (4) | | (\$45,900) |
| <u>Cost Saving as % of Finished Value</u> | | |
| Average Cost Savings per Unit with Policy | | (\$45,900) |
| / Estimated Finished Value per Unit (5) | | \$294,600 |
| = Cost Saving as % of Finished Value (6) | | -15.6% |
| <u>Estimated Increase in Housing Starts</u> | | |
| Cost Saving as % of Finished Value | | -15.6% |
| x Elasticity of Supply (7) | 2.20 | |
| = Estimated Increase in Housing Starts | | 34.3% |

Note:

See Appendix B for Notes



Projected Baseline Student Housing Supply and Marginal New Student Housing Attributed to Policy

- The OEA first estimated student housing production absent the proposed legislation to calculate future “baseline” student housing supply.
- This estimate is based on secondary school student population living in San Francisco, the proportion of student housing currently provided by the schools, the estimated proportion of future school-provided student housing, and the projected growth in student housing supply, based on historic student housing growth, per US Census data.
- The supply of all student-occupied housing is estimated to increase by 850 units per year, accommodated in both school-provided, and private housing, as shown on the following slide.
- Of the 850 units, 15%, or 128 units per year are anticipated to be supplied by schools in the baseline scenario.
- Multiplying this baseline housing supply by the 34% increase in housing starts attributed to the legislation results in an estimate of the marginal growth in student housing units from the proposed policy, or an increase of about 44 more units per year.



The Proposed Legislation is Estimated to Increase Student Housing Supply by 44 Units per Year

Existing Student Population and School-Provided Student Housing

| | |
|--|---------------|
| College students living in San Francisco (8) | 78,152 |
| - Enrollment in exempt institutions (9) | (34,667) |
| = San Francisco students at non-exempt schools | <u>43,485</u> |
| / average students per unit (10) | 2.3 |
| = San Francisco units occupied by students | 18,867 |
| / units provided by schools (excluding exempt schools) (11) | <u>2,100</u> |
| = % of student housing units provided by schools - existing conditions | 11% |
| x adjustment for increased market share due to Policy | <u>1.34</u> |
| = % of future student housing provided by schools - with Policy (12) | <u>15%</u> |

Projected Student Housing Supply Growth

| | |
|--|------------|
| San Francisco units currently occupied by students | 18,867 |
| x projected annual growth rate in student housing (13) | 4.5% |
| = annual growth in student-occupied housing | <u>854</u> |

Impact of Legislation on Student Housing Supply

| | |
|--|------------|
| Annual growth in student-occupied housing | 854 |
| x % of future student housing provided by schools with Policy (12) | 15% |
| = annual growth in student housing units supplied - baseline with policy | <u>128</u> |
| x estimated increase in housing starts (14) | 34% |
| = marginal growth in student housing units per year due to Policy | <u>44</u> |

Note:
See Appendix B for Notes



Appendix A – Summary of San Francisco Education Institutions, Enrollment, and Housing Controlled by Schools

| Education Institution (15) | Current Enrollment (students on-site) | Housing Units Controlled by School | Student Capacity (Beds) |
|--|---------------------------------------|------------------------------------|-------------------------|
| 1 Art Institute of California | 1,551 | 115 | 300 |
| 2 UOP School of Dentistry | 550 | 66 | 126 |
| 3 Academy of Art University | 8,428 | 764 | 1752 |
| 4 Center for English Studies | 150 | - | NA |
| 5 Heald College | 775 | - | NA |
| 6 Hult International Business School | 100 | - | NA |
| 7 University of Phoenix | 300 | - | NA |
| 8 USF | 8,772 | 998 | 2,300 |
| 9 California College of the Arts | 360 | 51 | 118 |
| 10 SF Conservatory of Music | 390 | 56 | 130 |
| 11 San Francisco Art Institute | 590 | 49 | 113 |
| 12 CA Culinary academy | 660 | - | NA |
| 13 City College of San Francisco | 33,834 | - | NA |
| 14 Wharton | 95 | - | NA |
| 15 Golden Gate University | 5,300 | - | NA |
| 16 Fashion Institute of Design | 100 | - | NA |
| 17 American College Chinese Medicine | 300 | - | NA |
| 18 National Holistic Institute | 115 | - | NA |
| 19 SF Institute of Cosmetics | 200 | - | NA |
| SUB-TOTAL | 62,570 | 2,100 | 4,839 |
| <i>Schools Exempt from Inclusionary Requirements</i> | | | |
| 20 UCSF | 2,998 | 436 | 1,142 |
| 21 UC Hastings | 1,200 | 130 | 300 |
| 22 SF State University | 30,469 | 1,166 | 2,400 |
| SUB-TOTAL | 34,667 | 1,732 | 3,842 |
| TOTAL | 97,237 | 3,832 | 8,681 |
| Average # Students per Unit | | | 2.3 |



Appendix B – Exhibit Notes

- (1) Excludes land acquisition, inclusionary housing fees and developer profit. Estimated average cost based on direct and indirect cost comps from various studies and cost data from proposed and completed projects maintained by the OEA, adjusted to reflect smaller unit sizes. Cost reflects low-rise (to 5 stories) wood-frame construction.
- (2) Unit size based on average size of student housing apartments offered by Academy of Art University, per the school's IMP. The average students per apartment is about 2.3 consistent with other student housing (See Appendix A).
- (3) Source: Mayor's Office of Housing. Average fee per unit required is estimated at about \$230,000, based on unit mix comprised primarily of studios and 1-BR, with some 2-BR units (reflecting the relatively smaller student housing unit sizes). Fee is multiplied by the % off-site housing requirement to estimate per unit fee. In this case, 20% under Baseline Scenario and 0% under the Policy Scenario.
- (4) Average cost decrease per unit attributed to lower affordability requirement (equivalent to the inclusionary-in-lieu fee).
- (5) Finished value estimated based on the income approach. That is, the projected net operating income (NOI) was estimated based on market rents applied to the net unit size and subtracting operating expenses (about 30% of gross income) and a 5% vacancy loss. The resulting NOI was capitalized at 5.5% to estimate the finished value per unit. Market rents are estimated at about \$2.90 per sq.ft. per month, per RealFacts.
- (6) Average cost decrease per unit expressed as % of finished value.
- (7) Estimated by OEA based on statistical comparison of the impact of housing prices on housing permits in San Francisco over time.
- (8) Source: US Census American Community Survey, 2009.
- (9) The City's inclusionary ordinance exempts institutions on State or Federal property. Therefore these students are excluded.
- (10) Based on average students per unit at schools providing housing. See Appendix A.
- (11) 7 of the 19 non-exempt schools provide 2,100 units for approximately 4,800 students. See Appendix A.
- (12) The % of student housing provided by schools is anticipated to increase from the current rate of 11% to approximately 15%, based on the projected increase in housing starts attributed to the policy (34%, or an adjustment factor of 1.34 applied to the existing 11% market share; see Slide 6). Because the legislation is anticipated to stimulate school-provided student housing development, over time, as more units are built, the proportion of students living in school-provided housing is projected to increase to 15%. This figure is used to estimate the baseline housing starts in the Policy scenario.
- (13) Source: US Census 1990, 2000. Annual growth rate in student group housing between 1990 and 2000 was about 4.5%. This is applied to the existing housing occupied by students to calculate the annual growth in student housing demand.
- (14) See Slide 6.
- (15) Information on enrollment, housing units controlled by the school, and student capacity based on information in each school's IMP on file with the Planning Department. Data for other schools based on information reported on school websites.



Appendix C – Marginal Student Housing Supply, Employment, and Gross City Product Projections Attributed to Policy

| Year | Marginal Increase Due to Policy | | |
|--------------|---------------------------------|----------|------------------------|
| | Student Housing Supply (1) | Jobs (2) | Gross City Product (2) |
| 2011 | 44 | 87 | 7,000,000 |
| 2012 | 44 | 84 | 7,000,000 |
| 2013 | 44 | 81 | 7,000,000 |
| 2014 | 44 | 78 | 6,000,000 |
| 2015 | 44 | 75 | 6,000,000 |
| 2016 | 44 | 72 | 6,000,000 |
| 2017 | 44 | 70 | 5,000,000 |
| 2018 | 44 | 68 | 5,000,000 |
| 2019 | 44 | 67 | 5,000,000 |
| 2020 | 44 | 66 | 5,000,000 |
| 2021 | 44 | 65 | 5,000,000 |
| 2022 | 44 | 64 | 5,000,000 |
| 2023 | 44 | 64 | 5,000,000 |
| 2024 | 44 | 63 | 4,000,000 |
| 2025 | 44 | 63 | 4,000,000 |
| 2026 | 44 | 62 | 4,000,000 |
| 2027 | 44 | 62 | 4,000,000 |
| 2028 | 44 | 61 | 4,000,000 |
| 2029 | 44 | 61 | 4,000,000 |
| 2030 | 44 | 60 | 4,000,000 |
| TOTAL | 875 | | |

Notes:

- (1) See Slide 8 for calculation of estimated increase in housing starts attributed to legislation.
- (2) Based on Regional Economic Models Inc. (REM) model run 12.02.10. Direct and indirect annual employment estimates and gross city product associated with the marginal student housing production attributed to the legislation.



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