

1.

San Francisco's housing unaffordability is wide-reaching. Housing costs have increased far faster than inflation since the late 1990s and have risen to the highest in the nation since the 2011 boom. To become a truly resilient city, San Francisco must tackle the challenges of unaffordability for residents today and proactively build for the future.

Affordable housing is critical to the City's economic and social health. Without housing that is affordable to a range of incomes, San Francisco runs the risk not only of losing vital components of its unique and diverse culture, but also risks incurring negative economic impacts as essential workers and families cannot afford to remain in the City.

The San Francisco Mayor's Office of Housing and Community Development (MOHCD) supports San Franciscans with affordable housing opportunities and essential services to build strong communities. The department works to create affordable housing, preserve affordability, protect vulnerable residents, and empower communities, neighborhoods, and people seeking housing. MOHCD's programs to create and preserve affordable housing are multifaceted and include 100% affordable multifamily housing, HOPE SF, down payment assistance loans, Small Sites, Preservation and Seismic Safety, and the monitoring of inclusionary mixed income housing.

MOHCD is one of the best resourced housing agencies in the Bay Area in terms of both staffing and funding with more 30 full time housing development and preservation project staff and more than \$1 billion in funds available for housing development and \$300 million available for housing preservation. The office is managing more than 125 active projects in its housing development pipeline, is managing a preservation program that aims to be responsive, timely to the dynamic nature of the local real estate market and is responsible for the asset management of more than 23,000 city financed affordable housing units within the city. The office acknowledges three stark conditions that have limited our

ability to meet the housing production and preservation needs within the city (1) the housing production need greatly exceeds the existing staffing and financial capacity of the city and its current nonprofit housing development partners, (2) the city cannot implement its current or desired housing goals without active partnerships with housing developers (community based, non profit, or market rate), and (3) past MOHCD investment and development policies have diminished opportunities for emerging Black and Brown market rate and community based developers to effectively partner in the implementation of the city's housing goals.

The 2014-2022 Regional Housing Need Allocation allocations for San Francisco calls for the development over 28,000 new units of housing, with a significant increase anticipated in the next allocation cycle. Historically, the City has met 50% of the very low income, 82% of the low income, and 42% of moderate income RHNA targets. According to the city's capital plan, over the next ten years MOHCD will need to invest in the acquisition and rehabilitation of at least 400 units per year based on historic loss of units from Housing Balance Report and recapitalize 15,500 units of existing MOHCD subsidized housing that lack project-based or operating subsidies. The office is advancing nearly 11,000 affordable units in its development pipeline through 2030.

It is important to note that MOHCD itself is not a housing developer, but rather serves as a key investor in affordable housing projects relying on development partners for the construction and long term operation of the housing. Unlike the City's horizontal and vertical assets such as pipes, streets, and buildings, when it comes to affordable housing, the asset the City "owns" is the affordability itself. Affordability is ensured both through restrictions placed on title or through ownership of the land underlying affordable units. Affordable housing buildings are typically owned by partnerships where the managing general partner is a mission-driven non-profit organization.

The approach of city funded affordable housing being developed and managed by mission-driven non-profit organizations is the result of strong advocacy from local community development organizations and leaders from the communities most impacted by gentrification and displacement, under the premise that these organizations were best suited to conduct ongoing engagement with impacted communities, best understood the housing needs and priorities of impacted communities, and had a long term commitment the operation of affordable housing to meet anti-displacement and community stability goals. The result is strong support among residents and public officials for the development of affordable housing in communities impacted by gentrification, more responsive development of 100% affordable housing and strong tenant organizing for the acquisition of units for permanent preservation. However, MOHCD and its development partners recognize that there is a shallow bench when it comes to the number of organizations that are managing housing preservation and production programs and that financial and staffing capacity of these organization limit the amount of housing that can developed under this model. Community development partners are generally developing projects within their home communities, mostly located in the eastern side of the city, creating gaps in housing production and preservation in areas of the city where is SF Planning Department Housing Balance Report there is some of the highest need for housing.

There has also been a steep learning curve to understand the intricacies of development finance, construction management and asset management for many of these organizations. MOHCD has made a long-term commitment to invest in capacity building to help address this concern.

Larger affordable housing developers can produce at scale but lack the diverse leadership and strong community connections advance responsive development. Also, their business models are only focused on production of new units, with none participating in the city housing preservation programs.

City leaders and voters have repeatedly demonstrated their support for policies and investments that address the housing needs of San Francisco's workforce and vulnerable residents. Since 2012, San Francisco has passed a number of key initiatives to increase resources for affordable housing production, including:

- 2012: Housing Trust Fund as a set-aside within the City's General Fund
- 2015: \$310 million affordable housing G.O. bond
- 2016: Significant increase to the inclusionary obligations on market rate housing
- 2018: Gross receipts tax to fund housing and services for people experiencing homelessness
- 2019: \$600 million affordable housing G.O. bond
- 2020: Health and Recovery G.O. Bond included \$147M for permanent supportive housing

While the parameters for the use of these funds is dictated by initiative language or by legislation, underwriting requirements are solely developed by MOHCD program staff and leadership, in consultation with development partners and with review and concurrence by the Citywide Affordable Housing Loan Committee. The underwriting requirements are drafted to ensure that the city is investing in financially viable projects, that are able to leverage state, federal and private sources, and that have the appropriate financial controls to ensure the responsible stewardship of public funds and generate revenue to sustain the city's housing programs.

Financial support of affordable housing production and preservation is generally provided by MOHCD through loans to affordable housing developers. Qualified development teams are selected through Notices of Funding Availability (NOFAs) or Requests for Proposals or Qualifications (RFPs or RFQs) that frame funding with the implementation of production and preservation priorities. Those teams then carry out preservation and new construction projects. This financing approach allows projects to leverage sources of funding at the state and federal level such that local resources are needed to pay only a portion of the total cost of development.

MOHCD program staff and leadership have been working respond to the feedback from the development stakeholders that its underwriting requirements and development procurements to remove barriers to partnering with the city and to better reconcile risk management and investment returns policies with city goals for increased participation by BIPOC led development teams, innovation in financing that increase competitiveness of projects to receive leveraged funds, and a broader range in the types of production and preservation projects. MOHCD is committed to taking the steps to address these concerns, switching its procurement from a request for proposals approach to a request for qualifications approach – which reduces the costs to apply for MOHCD projects by thousands of dollars, creating more flexibility to allow mission led organization partnering with for profit developers on preservation projects to be eligible for city financing, and supporting efforts to recapitalize existing portfolios to fund expanded rehabilitation and development initiatives. MOHCD centered racial equity as a key policy outcome in its most recent request for qualifications for the development of nine sites throughout the city. The result was that more than half of the development award projects being led by, or having substantive participation by, BIPOC teams. The office is also revising its preservation program marketing and underwriting guidelines, its commercial space underwriting guidelines, and prioritizing across the agency increase culturally competent engagement among staff and its grantee and development partners.

MOHCD is in regular conversations with BIPOC led market rate development teams about opportunities to partner on development and preservation deals outside of regular procurements. These firms are generally more mission driven specifically looking for investment in projects that advance long term housing affordability, and with team members from impacted communities in San Francisco or from communities throughout the nation faces similar concerns about gentrification and displacement. The office recognizes that these proposals are in line the with the city’s housing and racial equity goals, but

the office is trying to determine what is needed in terms of revisions to its policies and processes to move from brainstorming to deals.

The Breakthrough Grant will facilitate the SF Mayor's Office of Housing and Community Development meeting a goal to expand the number of BIPOC emerging developers within the city of San Francisco and concurrently to ensure that its investment and procurement policies allow for these developers to partner and receive financing from the MOHCD. MOHCD recognizes that the city need more developers and more deals at all scale to meet its housing production and preservation needs. The office seeks to maintain its charge that the affordable housing development and preservation it funds are is done so in partnership with mission driven developers, who are able to effective engage BIPOC and low income communities and develop projects responsive to community needs and priorities.

Expanding the pool of BIPOC emerging developers in San Francisco will produce the following outcomes:

(1) MOHCD will be able to continue its charge to invest in mission driven development

organizations. As was noted earlier, the majority – if not all – of the emerging BIPOC development firms MOHCD are in conversation with have articulated missions to increase affordable housing opportunities for low income and communities of color over the long term. Initial community and advocates prioritized nonprofit development teams over concerns that market rate and for profit housing developers focused on extractive transactions prioritizing profit over community. MOHCD is in concurrence that the development of housing just to meet unit counts cannot be the only goal. We now recognize the within the housing development ecosystem there is a sector comprised of mission driven development firms, that may be for profit or B Corps, who can partner to advance the city's housing goals without compromising its community development and racial equity goals.

(2) **MOHCD may be able to execute more preservation deals that require less MOHCD staff and financial resources.** The Small Sites program is the key MOHCD preservation program where the office works with communities and a nonprofit development partner to acquire occupied smaller apartment buildings, provide needed renovations, and enact affordability covenants and initial subsidy to ensure long term affordability for existing tenants. This program is generally utilized by a smaller subset of the local nonprofit housing development sector, and increasing per unit cost and limited capacity of the subset of developers inhibit the ability to execute more deals. Conversations with emerging BIPOC developers have focused on how they can participate in the acquisition and rehabilitation of smaller apartment buildings with these teams bring development expertise and proposing projects that need significantly less city financial resources. MOHCD is revising its policies for the Small Sites program that support nonprofit developers to partnering directly with emerging BIPOC developers, with the goal of increasing number of deals, increasing capacity to the non profit development partner, and decreasing the city financial commitment (which in turn allows for the funding of more deals). In addition, nonprofit development partners have shared that lack of capacity and financial recourse has limited their ability to utilize the Community Opportunity to Purchase Act (COPA) that allow them the first right to purchase smaller multifamily properties. There may be an opportunity to better utilize this program through partnership between mission driven nonprofit and mission driven BIPOC led organizations.

(3) **There may be an increase in the diversity and scale of the projects able to be developed/preserved within the city.** MOHCD recognizes the need to increase the scale and diversity of the projects that it funds. Currently the majority of investment portfolio are preservation project with building less than 25 units, or larger new 100% development projects of more than 100 units. The office has been working to pilot a “large sites” program to invest

in the acquisition and preservation of buildings with between 25 and 100 units. On the housing production side, proposed changes to zoning throughout will allow for the development more units on smaller sites throughout the city. Taking advantage of the new opportunities to support the preservation and production of the “missing middle” housing stock will require new partnerships with development partners that work at this scale. A scan by MOHCD, other city partners within the region and the San Francisco Urban Land Institute found that this is a niche that could be served by emerging BIPOC developers.

- (4) **Increased geographic distribution of housing preservation and production projects.** As was shared earlier in the narrative, a limitation of the city’s development approach is that most of the city’s mission based nonprofit developers primarily operate and want to develop within a specific geography. Many of these organizations operate in east side of the city creating gaps in advance development and preservation projects in high need neighborhoods such as the Fillmore/ Western Addition, Ingleside, Sunset, the Richmond and the Castro. MOHCD recently concurred with a SF Budget and Legislative Analyst finding about the need for the office to increase its investment in these neighborhood where the impacts of displacement have to fully manifest, but are imminent as identified by SF Planning Department Housing Balance Report. The office has instituted a capacity building program for non profit housing developers to understand the unique market, community and development issues in these communities. Concurrent with the work is the opportunity for emerging BIPOC mission driven developers who are looking citywide for acquisition and development opportunities to initiate deals and bring in a nonprofit partner. In the Diamond Heights neighborhood MOHCD entered into its first partnership with Habitat for Humanity of Greater SF for the development eight homeownership units with a commitment to affirmatively market to BIPOC residents. The project was able to be funded because MOHCD revised its underwriting guidelines and funding policies to allow for

financing smaller homeownership projects. Black led development firms have expressed interest in projects in the Western Addition and Fillmore neighborhoods, and trend that is in line with most recent effort by a larger established Black led development firm who is partnering with the Freedom West Cooperative on a proposed redevelopment that would significantly increase the density of the site and include replacement and new affordable housing units.

Building more housing for all of San Francisco's residents has been a key pillar for Mayor Breed and the SF Mayor's Office of Housing and Community Development. From advancing a \$600 million affordable housing bond, to streamlining the production of Accessory Dwelling Units, and rebuilding public housing, San Francisco has deeply invested in this area. Both housing preservation and production is essential to maintaining our diverse neighborhoods, preventing displacement, and creating long term economic sustainability for our residents.

Housing affordability is crucial to the City's efforts to advance racial equity. Not only have historic housing policies like urban renewal and redlining furthered systems of structural and institutional racism, these policies continue to impact Black, Indigenous, and people of color today as they disproportionately experience homelessness, rent burden, substandard housing and overcrowding. Moreover, as the COVID-19 pandemic has shown, people of color have been most in need of housing stabilization resources. With the pandemic's effect on the economy expected to last for the next few years, San Francisco must advance affordable housing production and preservation as the long-term solution to housing stability and racial equity.

According to the City and County of San Francisco consolidated plan, 70% of low, very low, and extremely low-income San Francisco residents or people of color. Analysis by SF Planning found that nearly 44,000 households, 42% of low-income renter households, spend more than half of their income on housing.

The proposal advances racial and economic opportunity in three ways:

- (1) **The development and preservation of more housing increases opportunity.** Through the revision of its policies to remove barriers to partnerships with emerging BIPOC developers, and enacting policies and programs to increase the number of emerging BIPOC developers working within San Francisco, MOHCD is confident that it will see an expansion in its preservation and

production pipelines. Our findings show that communities of color are in most need of the affordable housing for low, very low and extremely low incomes. MOHCD understands that the city is working from a severe deficit in past production and future RHNA allocations, but to address the affordability crisis within the city every unit counts. In addition, the possibility of expanding the number and geographic reach of units within its preservation portfolio is a critical component of city and community anti displacement initiatives.

(2) **Growing the number of emerging BIPOC developers in San Francisco advances both the city's housing opportunity and racial equity goals.** MOHCD has received feedback from emerging BIPOC developers that its underwriting policies and procurement excluded them from partnering the city on production and preservation programs. In November 2020, MOHCD stated a policy and programmatic imperative in its multisite request for proposal to increase the number and substantive participation on developers of color on all its projects. MOHCD recognizes that increased participation by developers of color has the potential to create more community serving and responsive developments and expand the geography and scale of its preservation portfolio.

MOHCD also recognizes the opportunity to have a more expansive reach to support BIPOC led business in housing supporting industries through its goal of substantive inclusion of BIPOC developers in the development of affordable housing. Many respondents to the request for qualifications includes strategies to include contractors and designers of color on its construction teams, engage small and community serving businesses led by people of color in its commercial spaces, and include organizations serving BIPOC resident in residential services programming.

(3) **MOHCD racial equity policies can replicated and scaled to advance larger systems change.**

Recent studies by Enterprise Community Partners, the Urban Institute and the Brookings

Institution has shown that access to capital is one of the most significant impediments for BIPOC housing developers. MOHCD has been formal idea exchange with the housing offices of Oakland and San Jose, providing it policy and procurement document and engaging in monthly meetings about how to realize shared housing and racial equity goals. San Francisco is a member of the national consortium High-Cost Cities Housing Forum and has also shared its racial equity and procurement policies with its members. MOHCD is a member of number working groups associated with the establishment of the Bay Area Housing Finance Agency where it not only advocating for a proportionate share of funding to go to the city, but that BAHFA underwriting and procurement policies are in line with that of San Francisco's including its racial equity goals. Finally, MOHCD has committed to working with its local, regional and national finance partners to find alignment in advancing equity and removing barriers for BIPOC development firms in all of funding sources for the city's affordable housing pipeline.

2014: City establishes the Small Sites Program

2016: Significant increase to the inclusionary obligations on market rate housing

2016: Voter initiative to repurpose Seismic Safety Loan funds for the housing preservation

2017: City establishes HOMESF – Affordable Housing Density Bonus Program

2017: SF Planning Commission endorses Mission Action Plan that includes place based anti-displacement housing strategies in the Mission neighborhood

2018: Gross receipts tax to fund housing and services for people experiencing homelessness

2019: \$600 million affordable housing G.O. bond

2019: City approves Community Opportunity to Purchase Act (“COPA”),

2020: Health and Recovery G.O. Bond included \$147M for permanent supportive housing

The Urban Land Institute (ULI) is the oldest and largest network of cross-disciplinary real estate and land use experts in the world. Through its members' dedication to the mission and their shared expertise, the Institute has been able to set standards of excellence in development practice.

Its stated mission is to "shape the future of the built environment for transformative impact in communities worldwide".

Its Mission Commitments are:

- CONNECT active, passionate, diverse members through the foremost global network of interdisciplinary professionals
- INSPIRE best practices for equitable and sustainable land use through content, education, convening, mentoring, and knowledge sharing
- LEAD in solving community and real estate challenges through applied collective global experience and philanthropic engagement

ULI SF would work in partnership with MOHCD staff and the Breakthrough Grant fellow to identify and cultivate relationships with young emerging developers of color in the Bay Area. Building on ULI's [Pathways to Inclusion](#) program and our [YLG](#) and [NEXT](#) mentorship programs, we will create a Cohort of Emerging Developers of Color to engage with over the next two years and beyond. MOHCD will provide targeted outreach to emerging BIPOC developers who have sought out city support for projects over the past two years. ULI and MOHCD will create at least two events per year specially for bringing together cohort members with the city's mission driven nonprofit development partners.

The Cohort will be comprised of 20+ individuals that will receive scholarships for ULI membership and access to programs designed to serve, support, and engage the Cohort throughout the two years. In

addition to ULI SF's existing programs and benefits, the Cohort will participate in monthly cohort meetings, networking events, trainings, and a mentorship program tailored to their interests and needs. At least half of the monthly meeting will be coordinated with MOHCD staff and the Breakthrough Fellow to dive into roadblocks that the Cohort members face when working in San Francisco and beyond. These facilitated discussions will shed light on policy barriers and potential solution to encourage and incentive more diverse housing development throughout the City.

Through regular engagement with City staff and the Cohort, relationships will be developed between the public sector and the emerging developers who are more likely to have direct experience in communities where small sites are located. In the short term, this consistent communication and relationship building will lead to more equitable policies that are created together. In the long term, revised policies, stronger partnerships, mutual understanding, coupled with enhanced career resources and mentorship will ultimately lead to more housing in areas of the City where we need it most.

Earlier this year Mayor Breed spearheaded the Dream Keeper Initiative which is reallocating \$120 million in funding from law enforcement to investments in the African American community, including \$10 million focused on homeownership and housing.

As the part of the Dream Keeper Initiative the SF Mayor's Office for Housing and Community Development was budgeted six positions to advance housing access and opportunities for African American residents of San Francisco. The position of Capacity Building Manager is charged with serving as a liaison to the African American led mission driven nonprofit developers to build their capacity to partner with the city on affordable housing production and preservation and provide recommendation to MOHCD leadership about changes to policies and practices that remove barriers for African American developers. Over the next year the Capacity Building Manager will: complete a needs assessment on BIPOC joint venture goals, convene cohort of BIPOC joint venture partners from the multisite RFQ, plan MOHCD "Joint Ventures Best Practices" document, and work with sister organizations -- LISC, Enterprise and other CDFIs -- to take advantage of their BIPOC focused resources. This work will also be supported by Dream Keeper Initiative funded positions advancing culturally competent communications to African American resident and a cultural district planning associate working on issues of anti-displacement.

The city budgeted \$10 million for a Housing Innovation Fund to support MOHCD efforts to invest in nontraditional housing deals. There is a pending commitment from the Department Housing and Homelessness Services of \$30 million annually for the development of 100% affordable permanent supportive housing that would be procured through the request for qualifications process. There is an additional \$10 million in the city budget for a social housing fund. Recommendations for the use of these funds will come from an oversight board that is staffed and managed by MOHCD. MOHCD will implement any recommendations from the oversight board in line with its racial equity goals.

The commitment to advancing housing opportunity is an all-staff effort at MOHCD. Additional staff supporting this initiative will be the agency Deputy Director for Housing, the Director of Housing Production, the Director for Housing Preservation, the Director of Policy and Government Affairs, the Small Sites Program Manager, the Cultural Districts Program Manager, and the Director of MOHCD. We also envision strategic interagency partnerships with Office of Community Investment and Infrastructure, SF Planning, the Office of Economic and Workforce Development and the Office of Contracts and Administration.

Underwriting requirements for housing development and preservation are solely developed by MOHCD program staff and leadership, in consultation with development partners and with review and concurrence by the Citywide Affordable Housing Loan Committee. Procurements are solely developed by MOHCD staff and leadership in consultation, with awards being determined by a committee comprised city agency and public members with concurrence by the Mayor.

Over the next two years MOHCD will continue to refine its underwriting guidelines to advance racial equity goals. We propose the following activities

- (1) Briefing to the Citywide Affordable Housing Loan committee on the MOHCD racial equity goals and proposed changes to staff reports to reflect the inclusion of racial equity goals**
- (2) Working session with the Citywide Affordable Housing Loan committee on affirmation and cross agency alignment on racial equity goals.**
- (3) Internal monitoring of performance of implementation of racial equity goals in development projects**
- (4) Review of documentation of findings and feedback from ULI emerging BIPOC developer's cohort, and mission driven nonprofit developers**
- (5) Review of documentation of findings from best practices and financing partner policy scan conducted by Capacity Building Manager**
- (6) Internal working session to proposed changes to guidelines based on reviews**
- (7) Working session with emerging BIPOC developer's cohort and mission driven nonprofit developers**
- (8) Working session with Citywide Affordable Housing Loan committee on proposed changes to the underwriting guidelines**
- (9) Final review and approval by MOHCD Director**
- (10) Final review and approval by Citywide Affordable Housing Loan Committee**

A similar process will take place for revisions to MOHCD procurements but the consultation will be with the Mayor's Office (not the Citywide Affordable Housing Loan Committee), and there will be limited discussion on specific provisions of the procurement due to city regulations that prohibit organizations who respond to procurements providing specific guidance on agency solicitations.

Guidelines and procurements will be implemented immediately by MOHCD and will become MOHCD policy. Developer selection and funding will be in line with the procurement and underwriting guidelines.