San Francisco Planning
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August 3, 2022

Ms. Angela Calvillo, Clerk
Honorable Supervisor Safai
Board of Supervisors
City and County of San Francisco
City Hall, Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: Transmittal of Planning Department Case Number 2021-012246PCA:
Density Limit Exception For Lots in RH zoning districts
Board File No. 211234, Version 3

Planning Commission Recommendation: **Approval with Modification**

Dear Ms. Calvillo and Supervisor Safai,

On July 21, 2022, the Planning Commission conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance, introduced by Supervisor Safai that would amend the Planning Code to create a density bonus program in RH (Residential, House) zoning districts. At the hearing the Planning Commission recommended approval with modification.

The Commission's proposed modifications were as follows:

1. Remove the eligibility criteria that requires lots to be a minimum size or distance from a major transit stop.
2. Refocus the fee to projects that are not proposing to increase density, instead of requiring on-site affordable units or an in-lieu fee of projects utilizing the density exception. Use these funds to increase funding to housing programs that assist first time home buyers.
3. Require a 1/3-unit proportionality requirement in addition to current bedroom count and minimum unit

size requirements.

4. Pursue the adoption of objective residential design standards.

5. Recommend amendments to the Subdivision Code for projects that meet certain requirements to apply to form condos via new construction pathways.

6. Exclude properties with tenants in the past three years or Ellis Act Evictions within 15 years, and do not allow demolition of rent-controlled units.

7. Require bonus units to be subject to rent control after a period of stabilization.

8. Exclude historic properties seeking to utilize the density exception from the priority processing timelines.

The proposed amendments meet the requirements of Senate Bill 10, Government Code 65913.5, and review under CEQA is not required.

Supervisor, please advise the City Attorney at your earliest convenience if you wish to incorporate the changes recommended by the Commission.

Please find attached documents relating to the actions of the Commission. If you have any questions or require further information, please do not hesitate to contact me.

Sincerely,

Aaron D. Starr
Manager of Legislative Affairs

cc: Audrey Pearson, Deputy City Attorney
Ernest Jones, Aide to Supervisor Safai
Erica Major, Office of the Clerk of the Board

Attachments :
Planning Commission Resolution
Planning Department Executive Summary

PLANNING COMMISSION RESOLUTION NO. 21145

HEARING DATE: July 21, 2022

Project Name:	Density Limit Exception For Lots in RH zoning districts
Case Number:	2021-012246PCA [Board File No. 211234, Version 3]
Initiated by:	Supervisor Safai / Amended in Committee 4/25/2022
Staff Contact:	Audrey Merlone, Legislative Affairs Audrey.Merlone@sfgov.org, 628-652-7534
Reviewed by:	Aaron Starr, Manager of Legislative Affairs aaron.starr@sfgov.org, 628-652-7533

RESOLUTION APPROVING A PROPOSED ORDINANCE THAT WOULD AMEND THE PLANNING CODE TO CREATE A DENSITY BONUS PROGRAM IN RH (RESIDENTIAL, HOUSE) ZONING DISTRICTS; ADOPTING FINDINGS, INCLUDING ENVIRONMENTAL FINDINGS, PLANNING CODE SECTION 302 FINDINGS, AND FINDINGS OF CONSISTENCY WITH THE GENERAL PLAN AND PLANNING CODE SECTION 101.1.

WHEREAS, on April 25, 2022 Supervisor Safai amended a previously introduce proposed Ordinance under Board of Supervisors (hereinafter "Board") File Number 211234, which would amend the Planning Code to create a density bonus program in RH (Residential, House) zoning districts;

WHEREAS, The Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting to consider Version 3 of the proposed Ordinance on July 21, 2022; and,

WHEREAS, the proposed Ordinance meet the requirements of Senate Bill 10, Government Code 65913.5, and review under CEQA is not required; and

WHEREAS, the Planning Commission has heard and considered the testimony presented to it at the public hearing and has further considered written materials and oral testimony presented on behalf of Department staff and other interested parties; and

WHEREAS, all pertinent documents may be found in the files of the Department, as the custodian of records, at 49 South Van Ness Avenue, Suite 1400, San Francisco; and

WHEREAS, the Planning Commission has reviewed the proposed Ordinance; and

WHEREAS, the Planning Commission finds from the facts presented that the public necessity, convenience, and general welfare require the proposed amendment; and

MOVED, that the Planning Commission hereby approves with modifications the proposed ordinance. The Commission's proposed recommendation(s) is/are as follows:

1. Remove the eligibility criteria that requires lots to be a minimum size or distance from a major transit stop.

2. Refocus the fee to projects that are not proposing to increase density, instead of requiring on-site affordable units or an in-lieu fee of projects utilizing the density exception. Use these funds to increase funding to housing programs that assist first time home buyers.

3. Require a 1/3 unit proportionality requirement in addition to current bedroom count and minimum unit size requirements.

4. Pursue the adoption of objective residential design standards.

5. Recommend amendments to the Subdivision Code for projects that meet certain requirements to apply to form condos via new construction pathways.

6. Exclude properties with tenants in the past three years or Ellis Act Evictions within 15 years, and do not allow demolition of rent-controlled units.

7. Require bonus units to be subject to rent control after a period of stabilization.

8. Exclude historic properties seeking to utilize the density exception from the priority processing timelines.

Findings

Having reviewed the materials identified in the preamble above, and having heard all testimony and arguments, this Commission finds, concludes, and determines as follows:

The Department supports the overall goals Supervisor Safai's revised ordinance. We recognize the need to increase density in areas of the City that have historically seen little housing production while also producing more diverse and importantly affordable housing choices. The question then becomes whether these ordinances will accomplish the Supervisor's and Department's shared goals. The Department believes that by refocusing fees and costly inclusionary requirements away from projects that are producing the kind of housing the City wants and instead finding ways to incentivize this type of housing, a density exception proposal could be successful in producing new, modest density in our RH neighborhoods. The modifications that staff has recommended are to that end.

For the City to accomplish any meaningful housing production in our RH Districts, we will have to find ways to make it financially feasible. We know from our economic analysis that purchasing a single-family home and turning it into four units is not financially feasible under current conditions. In fact, our current Planning Code regulations as well as market conditions encourage the production of larger and larger single-family homes. To increase financial feasibility, the City should also look at reducing process on projects that we want to encourage. Staff strongly believes that our code should clearly promulgate the type of development we want and then reduce process and appeal barriers to make it easier to build those developments.

The City's best opportunity to rectify past injustice and open opportunities through increased density is to shape a local program that incentivizes density while providing subsidies for more affordability. The following recommendations attempt to modify the legislation to create resources for reducing barriers for communities of color to build equity or access income from their properties. They also appropriately densify RH districts in a way that reduces displacement and supports existing homeowners and renters. Importantly, they propose ways to incentivize they type of development we want by reducing process and appeal avenues.

General Plan Compliance

The proposed Ordinance and the Commission's recommended modifications are consistent with the following Objectives and Policies of the General Plan:

HOUSING ELEMENT

OBJECTIVE 1
IDENTIFY AND MAKE AVAILABLE FOR DEVELOPMENT ADEQUATE SITES TO MEET THE CITY'S HOUSING NEEDS, ESPECIALLY PERMANENTLY AFFORDABLE HOUSING.

Policy 1.6
Consider greater flexibility in number and size of units within established building envelopes in community based planning processes, especially if it can increase the number of affordable units in multi-family structures.

OBJECTIVE 4
FOSTER A HOUSING STOCK THAT MEETS THE NEEDS OF ALL RESIDENTS ACROSS LIFECYCLES.

Policy 4.6
Ensure that new permanently affordable housing is located in all of the city's neighborhoods, and encourage integrated neighborhoods, with a diversity of unit types provided at a range of income levels.

OBJECTIVE 5
ENSURE THAT ALL RESIDENTS HAVE EQUAL ACCESS TO AVAILABLE UNITS.

Policy 5.2
Increase access to housing, particularly for households who might not be aware of their housing choices.

Policy 5.4
Provide a range of unit types for all segments of need, and work to move residents between unit types as their needs change.

The proposed Ordinance, with all staff modifications, will allow areas of the City that have been restricted to single-family zoning for decades, to add modest density to their neighborhoods, thereby providing a larger range of housing choices for current and future residents. These range of housing units in size, type, and affordability will assist current residents with being able to stay within their existing community, even if their housing needs change. It will also open opportunities for new residents to move into neighborhoods that are currently exclusionary due to the lack of housing options for those who cannot afford to buy or rent a single-family home.

OBJECTIVE 10

ENSURE A STREAMLINED, YET THOROUGH, AND TRANSPARENT DECISION-MAKING PROCESS.

Policy 10.2

Implement planning process improvements to both reduce undue project delays and provide clear information to support community review.

The proposed Ordinance, with all staff modifications, will promote modest density across RH districts in the City through the addition of residential units and ADU's. The proposed Ordinance with modifications also incentivizes adding modest density over building/expanding large, single-family homes in RH districts through the alleviations from cost/time burdensome permit processes.

Planning Code Section 101 Findings

The proposed amendments to the Planning Code are consistent with the eight Priority Policies set forth in Section 101.1(b) of the Planning Code in that:

1. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced;

   The proposed Ordinance would not have a negative effect on neighborhood serving retail uses and will not have a negative effect on opportunities for resident employment in and ownership of neighborhood-serving retail.

2. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods;

   The proposed Ordinance would not have a negative effect on housing or neighborhood character.

3. That the City's supply of affordable housing be preserved and enhanced;

   The proposed Ordinance would not have an adverse effect on the City's supply of affordable housing.

4. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood parking;

   The proposed Ordinance would not result in commuter traffic impeding MUNI transit service or *overburdening the streets or neighborhood parking.*

5. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced;

   The proposed Ordinance would not cause displacement of the industrial or service sectors due to office development, and future opportunities for resident employment or ownership in these sectors would not be impaired.

6. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake;

   The proposed Ordinance would not have an adverse effect on City's preparedness against injury and loss of life in an earthquake.

7. That the landmarks and historic buildings be preserved;

   The proposed Ordinance would not have an adverse effect on the City's Landmarks and historic buildings.

8. That our parks and open space and their access to sunlight and vistas be protected from development;

   The proposed Ordinance would not have an adverse effect on the City's parks and open space and their access to sunlight and vistas.

Planning Code Section 302 Findings.

The Planning Commission finds from the facts presented that the public necessity, convenience and general welfare require the proposed amendments to the Planning Code as set forth in Section 302.

NOW THEREFORE BE IT RESOLVED that the Commission hereby APPROVES WITH MODIFICATIONS the proposed Ordinance as described in this Resolution.

I hereby certify that the foregoing Resolution was adopted by the Commission at its meeting on July 21, 2022.

Jonas P Ionin

Jonas P. Ionin
Commission Secretary

AYES:	Diamond, Fung, Koppel, Tanner
NOES:	Moore, Imperial, Ruiz
ABSENT:	None
ADOPTED:	July 21, 2022

San Francisco Planning

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EXECUTIVE SUMMARY
PLANNING CODE TEXT AMENDMENT

HEARING DATE: July 21, 2022

Project Name:	Dwelling Unit Density Exception in RHD's
Case Number:	2021-012246PCA [Board File No. 211234, Version 3]
Initiated by:	Supervisor Safai / Amended in Committee 4/25/2022
Staff Contact:	Audrey Merlone, Legislative Affairs Audrey.Merlone@sfgov.org, 628-652-7534
Reviewed by:	Aaron Starr, Manager of Legislative Affairsf aaron.starr@sfgov.org, 628-652-7533

Recommendation:	Approval with Modifications

Planning Code Amendment

Ordinance amending the Planning Code to create a density bonus program in RH (Residential, House) zoning districts.

The Way It Is Now:

1. In RH-1, RH-2, and RH-3 zoning districts, lots are restricted to 1, 2, or 3 units respectively.
2. There is no inclusionary housing requirement for projects that are under 10 units.

The Way It Would Be:

1. The proposed Ordinance would create a density bonus program in RH zoning districts that would allow for up to 4 units on interior lots and up to six units on corner lots so long certain criteria are met.
2. The new program would require the developer to provide one on-site affordable housing unit, or pay a fee based on the average square footage of the proposed units.

Background

Since October 2021, the Planning Commission has reviewed three ordinances that would allow for a density bonus in City's RH zoning districts: one introduced by Supervisor Mandelman (Board File No. 210866), one by Supervisor Mar (Board File No. 211202), and one by Supervisor Safai (Board File No. 211234). Supervisor Mandelman's ordinance rezoned all RH-1 zoning districts to RH-2 and allowed for up to four units on interior lots and six units on corner lots. Mar and Safai's ordinances both only allowed for up to four units and had an inclusionary housing requirement. The Planning Commission heard Supervisor Mandelman's ordinance on November 18, 2021, and recommended approval with modifications. The Commission considered both Mar and Safai's ordnances on February 10th of this year and recommended disapproval.

Since then, the Board's Land Use and Transportation Committee has taken up all three ordinances; however only Supervisor Mandelman's ordinance advanced to the Full Board. Mandelman's ordinance was modified to include a requirement that the applicant must have owned the property for at least five years to be eligible for the program, and that all units built over the base density (aka bonus units) must be rent controlled. Mandelman's ordinance passed its second read on July 12, 2022 and is pending the Mayor's signature. The Board passed Mandelman's ordinance on a seven to four vote, with Supervisors Safai, Walton, Dorsey, and Stefani voting against the ordinance. It is unclear if the Mayor will sign Supervisor Mandelman's ordinance; however, if the mayor vetoes the ordinance the Board would need eight votes to override her veto.

On April 25, Supervisor Safai's ordinance was back before the Land Use and Transportation Committee. During that hearing he proposed several significant amendments, which are discussed below.

Board File No. 211234

The chart on the following page compares the changes between Version 1, which the Planning Commission reviewed on February 10, 2022, with the revised ordinance, known as Version 3.

	VERSION 1	VERSION 3 (changes from v.1 in red)
Zoning Districts	RH-1, RH-1(D), RH-2, & RH-3	RH-1, RH-1(D), **RH-1(S),** RH-2, & RH-3
Density Exception	4 units per lot (*inclusive of ADU's*)	4 units per lot, **or 6 units per corner lot** (~~*inclusive of ADU's*~~) **1 ADU per lot allowed in addition to the above density limits**
Eligible Lots	• Must be within 1 mile of a major transit stop • 2,500 sqft • Total of 79,850 parcels	• Must be within 1 mile of a major transit stop • 2,500 sqft • Total of 79,850 parcels

Eligible Projects	• Will result in at least 3 dwelling units
	• Is not receiving another density bonus
	• Any units proposed for demolition must be replaced
	• Must be proposing new construction or additions to existing structures
	• Must be 100% residential
	• Must include 1 affordable unit within the 3 or 4 unit building:
	    ○ Rental @ 110% AMI max, or Owner @ 140% AMI max, and;
	    ○ At least 2 units contain 1 or more bedrooms, and;
	    ○ (Affordable unit) subject to rent control
	• No unit smaller than min. size set by CA TCAC
		• Will result in at least 3 dwelling units
		• Is not receiving another density bonus
		• Any units proposed for demolition must be replaced
		• Must be proposing new construction or additions to existing structures
		• ~~*Must be 100% residential*~~
		• Must include 1 affordable unit within the 3 or 4 unit building:
		    ○ Rental @ 110% AMI max, or Owner @ 140% AMI max, and;
		    ○ At least 2 units contain 1 or more bedrooms, and;
		    ○ (Affordable unit) subject to rent control
		OR
		• **Must pay an "Affordable Housing Fee", equivalent to the fee per sqft X ave. sqft of all units in the project (but no greater than 740sqft)**
		• No unit smaller than min. size set by CA TCAC

Additional Exceptions for Eligible Projects	• Rear yard reduction to no more than 25% or 15 ft (whichever is greater)* • Exposure reduction to no less than 25ft in each direction* • RM-1 open space standards apply • Priority Processing (180 days)* • No Neighborhood Notice (311 Notice) • No Discretionary Review • Minor alleviations from Residential Design Guideline massing standards at discretion of Planning Director • Up to 15% additional alleviations from open space, rear yard, and exposure at discretion of Planning Director	• Rear yard reduction to no more than 25% or 15 ft (whichever is greater)* • Exposure reduction to no less than 25ft in each direction* • RM-1 open space standards apply • Priority Processing (180 days)* • No Neighborhood Notice (311 Notice) • No Discretionary Review • **No 317 CUA for demo unless project is historic** • Minor alleviations from Residential Design Guideline massing standards at discretion of Planning Director • Up to 15% additional alleviations from open space, rear yard, and exposure at discretion of Planning Director

**With additional restrictions/conditions*

Issues and Considerations

Feasibility and the Inclusionary Requirement

The Department contracted with consultant Century Urban to conduct feasibility studies of the various fourplex proposals, as well as SB9. The work has been released in three separate memos produced by the Department. The latest memo, published on May 6, 2022, contains an analysis of the feasibility gap of various fourplex scenarios, including scenarios with price controls, as proposed by Supervisor Safai's ordinance. All three memos can be found as Exhibits B – D.

To assess financial feasibility for these prototype scenario projects, Century Urban calculated the residual value, or the amount that a purchaser of a home or land can afford to pay for that home or land and construct one of these prototype projects. If the residual value is below the estimated sale price for an existing single-family home, then a property owner or developer would be less financially motivated to redevelop the property, and a developer would be unable to match typical offers from other single-family home buyers. Where there is a negative difference between the residual value of the prototype project and the market value of an existing single-family home in the respective neighborhood, this is the "feasibility gap."

As summarized in the February 2022 memo, the analysis found that all the prototypes analyzed in all neighborhoods had a feasibility gap. This indicates that at current construction costs, rental rates, and single-family prices, financial feasibility of demolishing an existing single-family home to develop new triplexes and fourplexes is challenging. The magnitude of the "gap" between the residual value generated by prototype developments and median single family home prices in all neighborhoods analyzed ranged from $1.3m-2m in mid-tier and lower cost neighborhoods to $5m in Pacific Heights.

The analysis also calculated whether there is a "gap" when comparing the projected residual values to the typical minimum (rather than median) home prices in the same neighborhoods, as in, half of houses for sale are valued at less than the median and there may be circumstances where a home is unusually small and/or poorly maintained relative to the typical condition. While the "gap" is substantially smaller in all of those cases, a "gap" remains across all scenarios with the lowest gaps of $300,000-$600,000 in the mid-tier neighborhoods.

> The study found Supervisor Safai's proposal to allow a fee payment in lieu of an on-site BMR unit would result in an estimated fee of up to $170,823.

Since there is a projected feasibility gap to replace a single-family house with a multi-family building, any restriction of rent or sale prices of the resulting units will add to that gap. The addition of affordability requirements would increase the feasibility gaps across the prototypes by typically several hundred thousand dollars to over one million dollars (for the fourplexes with two required BMR units as was proposed in Supervisor Mar's ordinance). The study also found Supervisor Safai's proposal to allow a fee payment in lieu of an on-site BMR unit would result in an estimated fee of up to $170,823, based on a maximum unit size of 740 square feet and current in lieu fee rate for the City's Inclusionary Housing program[1]. It should also be noted that the financial feasibility gap for all Century Urban scenarios already presumed an expedited permitting process (no

[1] https://sfplanning.org/sites/default/files/forms/Impact_Fee_Schedule.pdf

CUA or Discretionary Review process), nor did the calculations include fees for these processes (no CUA fee, DR fee, or Categorical Exemption fee). Version 3's in lieu fee payment option could be cheaper than on-site units in some cases; however, this fee would still add to the already large financial feasibility gap for three and fourplex developments, serving as yet another disincentive to build/add density.

There are several aspects of Version 3 that help improve feasibility, including allowing 6 units on corner lots, and allowing ADUs under the density bonus program, but perhaps the largest impacts are the removal of 317 and Discretionary Review for projects in the program. Version 1 of Supervisor Safai's ordinance already contained provisions exempting qualified projects from Discretionary Review and Neighborhood Notification, however one of the largest process hurdles is the Conditional Use authorization. Version 3 exempts non-historic 3-4plex projects from this process as well. Converting an existing single-family house without demolishing it into four units is one of the most expensive ways to increase density. Demolishing is typically less expensive but requires Conditional Use authorization even if the project seeks to maximize density. The Conditional Use process is costly and time-consuming and does not guarantee the project will be able to move forward. A CUA's purpose is to put projects that may vary greatly in their produced result through subjective review. The CUA seems unnecessary given the other rigorous standards these projects must meet to qualify for the density exception. Removing the requirement for qualified projects will result in a significant cost savings for the applicant, and serve as an incentive to add density, rather than expand/build a single-family home.

Closing The Feasibility Gap

At their March and April hearings, the Land Use Committee requested additional information on potential public policy "levers" that might be able to offset the financial barriers faced by property owners redeveloping an existing single-family home or adding units. This updated analysis and summary from the Planning Department can be found as Exhibit D.

Although some factors essential to reducing the feasibility gap for these projects are out of the government's control (such as current construction costs), there are other governmental levers that could help promote the construction of multi-unit developments. The study found that low interest construction loans, waiving City permit fees in excess of $10,000, abatement of transfer taxes for sales of properties that add units, and abatement of the City's portion of property taxes for 40 years could all reduce the feasibility gap for fourplex projects. The study's recommendations emulate several of the Department's own recommended modifications to Supervisor Mandelman's fourplex ordinance. Of the Department's recommended modifications, two intended to reduce the feasibility gap were to 1) increase funding to supportive housing programs, and 2) to explore establishing a fee on new single-family homes larger than 4,000sqft or expansion of existing single-family homes that exceed 4,000sqft.

Enhanced Density at Corner Lots

Version 3 of Supervisor Safai's ordinance includes an amendment to allow up to 6 units on corner lots. This amendment mirrors one of the Departments recommended modifications to Supervisor Mandelman's fourplex ordinance, and which was adopted by Supervisor Mandelman. Corner lots play a stronger role in defining the character of the neighborhood. They can act as informal entryways to the street, setting the tone for the streetscape that follows. The city's Residential Design Guidelines encourage corner buildings to recognize their prominent location by embracing the public realm with a greater visual emphasis, including using greater building height to increase that emphasis. The city's typical Victorian-era form and massing was overwhelmingly comprised of multi-family residences with single-family homes located at mid-block locations. This style of street pattern has permeated throughout the city, with examples of larger corner buildings existing across every low-density residential neighborhood. It is not uncommon for a corner lot in an RH district to contain as many as 20 units. Their location also allows for larger buildings without impeding on mid-block open space. The design impact of this legislation on RH streetscapes would be minimal, and in many cases create buildings that are more appropriate for the surrounding neighborhood's street pattern.

Although interior lots in the city's RH districts typically do not contain as many units as corner lots, it is still common to find multiple buildings on a single block that contain more than the currently allowed units for their zoning district. This is often because the building predates the city's restricted RH density controls. Allowing a density exception for up to 4 units on interior lots, while retaining existing height controls, ensures the modest density increase still fits within the city's typical streetscape.

Incentivizing Density

It is important for the City to find ways to increase density in our higher resourced RH Districts. It must be done in a way that reduces displacement and come with resources for low-income and households of color to access housing and wealth-building opportunities. These principles shaped the Department's package of amendments to Supervisor Mandelman's ordinance, which the Planning Commission adopted unanimously. The amendments provided incentives to homeowners and developers to encourage greater density.

In addition to the redirection of fees to projects that are not proposing to increase density, the legislation should ensure the City does not worsen the already large feasibility gap with extra process or affordability requirements. 4-6 unit buildings on RH lots should be encouraged over single-family homes. Until it becomes less financially profitable to build or expand single-family homes, this housing typology will continue to be favored over the development of multi-family buildings on RH lots. Even for residents seeking to add units to their home who are not financially motivated, Century Urban found the feasibility gap to be too large for the average San Francisco homeowner to pursue. Supervisor Safai's legislation assists in removing many of the process barriers projects face when attempting to increase density on their lot, but the Department would recommend taking additional measures to create more certainty in the permitting process and expand the reach of the program.

Housing Element Update

The City is in the process of updating the General Plan's Housing Element, which is expected to be complete by the end of the year. This update, which is the first to be centered on racial and social equity, makes clear that our lack of housing affordability impacts communities of color and low-income communities disproportionately. It also shows that our housing efforts need to support underserved populations across cultures, family structures, and abilities. Allowing small, multifamily housing in lower density neighborhoods – as would be the case with fourplex development - is a meaningful way to address these challenges. The Housing Element will additionally address ways to accomplish the Regional Housing Need Allocation (RHNA) mandate of building 82,069 new units of housing over the course of the next eight years[2]. Version 3 of the Supervisor's Ordinance would be a

[2] https://abag.ca.gov/our-work/housing/rhna-regional-housing-needs-allocation

small step in achieving this goal, but will need to be accompanied by additional process improvements and upzoning measures to be accomplished.

Housing Development Incentive Program for Homeowners

Supervisor Mar introduced a Resolution (BF 211207) that urges the Planning Department and MOHCD to create a Housing Development Incentive Program for Homeowners that supports residents to expand their homes to build new housing. The resolution passed and was enacted on March 11, 2022. This program will include technical assistance (e.g. for predevelopment, construction, and property management), financial assistance (e.g. grants, no or low interest loans), and streamlined permitting through pre-approved plans. The goal to increase the number of housing units developed by homeowners and local small property owners. The program is also intended to target low- and moderate- income homeowners RH zoned neighborhoods. The Department supports this effort and encourages the Board to find more ways to help subsidize fourplexes so that they will also include affordable units.

General Plan Consistency

Objective 4 of the Housing Element instructs the City to "foster a housing stock that meets the needs of all residents across all lifecycles." The proposed Ordinance, with all staff modifications, will end a decades old exclusionary practice that has helped segregate our city. Version 3, with all staff modifications, will create opportunities for areas of the City that have seen little housing production in the last several decades to add modest density, thereby increasing housing choice for existing residents, and opening opportunities for current homeowners to build equity through the addition of a unit(s). Objective 10 of the Housing Element instructs the City to "ensure a streamlined, yet thorough, and transparent decision-making process". The proposed Ordinance, with all staff modifications, will make adding modest density to our RH districts more manageable for homeowners and developers, through the creation of a more streamlined process for qualified projects that meet the City's housing priorities.

Racial and Social Equity Analysis

Adding density in our RH neighborhoods would allow more people to live where there are already good services and transit. It would also allow people who live in these neighborhoods already to find the type of housing they need. This is foundational to the proposed policies in the Housing Element Update 2022 and the goals of the Department. Changing the density requirements, however, is one of the many steps required to unlock this potential, especially if we are to make sure that the benefits and opportunities are equitable and repair the historic burdens and restrictions enacted on Black, American Indian, and other communities of color. Just as with previous recommended modifications of other fourplex ordinances, the Department's recommended modifications for Version 3 of Supervisor Safai's ordinance are designed to increase equity outcomes, including in relation to feasibility for homeowners the City hopes will take advantage of the density exception program.

<u>Reduce Potential Vulnerability of Single-Family Home Renters:</u>
Based on 2018 census data[3] only 12% of renters live in single-family homes in San Francisco, and some of these renters may occupy ADUs within them. Most renters in single-family homes do not have rent control protections

[3] *From the American Community Survey or ACS.*

due to the state Costa Hawkins law and could face unregulated rent increases at any time. In addition, because single-family homes are very expensive in San Francisco, the potential profit from a single-family home sale could already induce owners to sell a home and renters may find themselves displaced.

The Department recognizes that equitable outcomes mean protecting existing tenants, especially those who are rent-burdened, on fixed incomes, low-income, those with disabilities, those who identify as LBGTQAI+, seniors, and people of color. Although Supervisor Safai's ordinance requires the on-site affordable unit(s) to be rent-controlled, Version 3 of the Ordinance does not contain measures that prevent the temporary displacement of tenants during construction. Controls such as excluding properties with tenants in the past three years or Ellis Act Evictions within 15 years and not allow demolition of rent-controlled units would help protect these vulnerable populations, as would expanding rent-control to all bonus units.

Homeowner Risk in Taking Advantage of Density Increases

Given the high value of single-family homes and the feasibility challenges described in the attached feasibility studies, it is unlikely that developers would use this legislation to purchase single-family homes to transform them into fourplexes. Current market conditions are atypical for the City in that adding units to a project at this small scale does not confer value. The most likely scenario is that homeowners in mid-tier markets would take on such projects although they would face high risk and numerous challenges.

Longtime homeowners would benefit most from an ability to increase the density on their lot, through either demolition and new construction, or through the addition of units to the existing building. Unfortunately, 30% of owners[4] (approximately 39,500) are cost burdened[5], and over 19,000 of these burdened owners are severely cost burdened. Middle income owners are more likely to be cost burdened than renters but more than 80% of severely burdened owners are lower income. Homeowners of color experience higher rates of cost burden, and Black homeowners in particular face higher rates of severe cost burden.[6]

While any fourplex legislation puts forward similar risks, Supervisor Safai's ordinance adds the challenge of producing privately financed housing units with permanently restricted prices or rents. This means that any homeowner taking on such a project would need to leverage the equity they already have in their house by getting a loan, in most cases millions of dollars, to fund a long and risky permitting and construction process. This would result in an outcome where they likely could not gain sufficient income to pay off the loan. Many will find banks unwilling to finance a project where the income is not sufficient, especially if they have no track record of project delivery. Even if the homeowner was willing to build additional units at risk or upside-down in value for family members, when they eventually sell the property, the income-restricted housing units will not have gained the financial equity in the market, meaning that there is very little if any wealth-building reward.

The only way to stabilize this process, especially for moderate- or low-income homeowners, would be to substantially subsidize this effort with public funds. This could take the form of forgivable construction loans or other payments from the city. Homeowners even in this situation would need to be financially and socially

[4] Based on IPUMS data from 2014-2018.

[5] HUD defines cost-burdened families as those "who pay more than 30% of their income for housing" and "may have difficulty affording necessities such as food, clothing, transportation, and medical care." Severe rent burden is defined as paying more than 50% of one's income on rent.

[6] Summary Draft Needs Assessment for the 2022 Housing Element, page 24. https://www.sfhousingelement.org/summary-draft-needs-assessment-housing-element-2022-update

resilient, as it is not uncommon for there to be delays and cost overruns in the development process, putting low and moderate homeowners at a further disadvantage. It is possible that a community land trust or non-profit housing developers could use this program but there are few existing models, and they would require significant sweat equity, public subsidy, and/or philanthropy.

<u>Renters/Buyers with higher incomes have an advantage in gaining any unit produced</u>
Because the proposed legislation does not enter new units produced into the MOHCD DAHLIA lottery system or provide any other structure toward income verification, there is no guarantee that new renters or buyers are middle-, moderate- or low-income households. Above middle-income prospective renters and buyers are at an advantage, as they are often in better or more flexible job, credit, and resource situations that give them advantages in obtaining housing and it is likely that they will disproportionately reap the opportunities of these fixed price outcomes.

<u>New Units should benefit Workforce Families, especially those of Color:</u>

As stated in previous fourplex ordinance reports, the outcomes of changing density in single-family neighborhoods are likely to play out over a long period of time. These outcomes could potentially reinforce the exclusionary history of many of these areas without specific equity considerations. State law and federal policy require San Francisco to affirmatively further fair housing to address the history of discrimination and current inequalities in housing access.

In many high income, high resourced neighborhoods, housing regulations that limit housing options overlay a history of public and private racial discrimination. Racially restrictive covenants, redlining and lending discrimination have limited housing options for people of color for decades in San Francisco- and much of the rest of the country. The single-family housing developments constructed in the city from the 1930's onward were heavily shaped by these discriminatory policies. Further, these policies were often required by federal agencies as a condition of federally insured loans. In addition, people of color were often excluded from buying or renting in historically higher income areas of the city. Adding to the devastation of these discriminatory practices, urban renewal in the 1950 and 1960's destroyed various communities of color including the Fillmore and parts of SoMa. Though many discriminatory policies have been outlawed, their effects can still be widely seen today. People of color remain more concentrated in communities in the east and south of the City. These neighborhoods tend to be lower income, have lower homeownership, and have worse health outcomes. While higher opportunity areas tend to have higher concentrations of White residents and offer good resources and better health and wealth outcomes for its residents. Rules that limit where multifamily housing can be built in higher opportunity areas are often referred to as "exclusionary zoning" because these rules can limit housing options for low- and moderate-income people and people of color.

The new housing produced in formerly exclusionary neighborhoods must be variable to offer different scales and types to fit the needs of people across the city. It must also be financially accessible to those with lower incomes and communities of color, especially those in Black and American Indian Communities. Producing more units is not enough given the historic dearth, to facilitate housing choice for these residents and to encourage the return of people of color who have already been displaced.

The Department believes that in addition to creating a fee to apply to large, and single-family home developments, and significantly increasing financial resources for down payment assistance, low interest construction loans, etc., requiring unit parity is important to ensuring a varied housing stock that meets the needs of all San Franciscans. Small units can help young adults start to establish credit or build wealth and help seniors to both downsize and stay in their neighborhoods. Additionally, small units are less common in single-family neighborhoods and tend to be more affordable by design. Increasing the amount of multi-bedroom units helps growing or multi-generational families stay adequately housed; statistically more likely to be families of color. This also encourages applicants to use the building envelope more equitably rather than taking advantage of a streamlined process for a very large house with little space given to the other units.

Implementation

The Department is concerned that it will not be able to meet the 180-day processing timeline for projects that require Historic Preservation review, or a CUA due to being a historic building. Conditional Use authorizations take time to review, especially in the case of historic properties, and scheduling projects at the Commission relies on availability on the Planning Commission’s calendar. Further, requiring these projects to be processed within 180 days would take away staff time from priority projects like affordable housing.

Recommendation

The Department recommends that the Commission *approve with modifications* the proposed Ordinance and adopt the attached Draft Resolution to that effect. The Department recommends the following:

1. Remove the eligibility criteria that requires lots to be a minimum size or distance from a major transit stop.
2. Refocus the fee to projects that are not proposing to increase density, instead of requiring on-site affordable units or an in-lieu fee of projects utilizing the density exception. Use these funds to increase funding to housing programs that assist first time home buyers.
3. Require a 1/3 unit proportionality requirement in addition to current bedroom count and minimum unit size requirements.
4. Pursue the adoption of objective residential design standards.
5. Recommend amendments to the Subdivision Code for projects that meet certain requirements to apply to form condos via new construction pathways.
6. Exclude properties with tenants in the past three years or Ellis Act Evictions within 15 years, and do not allow demolition of rent-controlled units.
7. Require bonus units to be subject to rent control after a period of stabilization.
8. Exclude historic properties seeking to utilize the density exception from the priority processing timelines.

Basis for Recommendation

The Department supports the overall goals Supervisor Safai’s revised ordinance. We recognize the need to increase density in areas of the City that have historically seen little housing production while also producing more diverse and importantly affordable housing choices. The question then becomes whether these ordinances will accomplish the Supervisor's and Department's shared goals. The Department believes that by refocusing fees and costly inclusionary requirements away from projects that are producing the kind of housing the City wants and instead finding ways to incentivize this type of housing, a density exception proposal could be successful in producing new, modest density in our RH neighborhoods. The modifications that staff has recommended are to that end.

For the City to accomplish any meaningful housing production in our RH Districts, we will have to find ways to make it financially feasible. We know from our economic analysis that purchasing a single-family home and turning it into four units is not financially feasible under current conditions. In fact, our current Planning Code regulations as well as market conditions encourage the production of larger and larger single-family homes. To increase financial feasibility, the City should also look at reducing process on projects that we want to encourage. Staff strongly believes that our code should clearly promulgate the type of development we want and then reduce process and appeal barriers to make it easier to build those developments.

The City's best opportunity to rectify past injustice and open opportunities through increased density is to shape a local program that incentivizes density while providing subsidies for more affordability. The following recommendations attempt to modify the legislation to create resources for reducing barriers for communities of color to build equity or access income from their properties. They also appropriately densify RH districts in a way that reduces displacement and supports existing homeowners and renters. Importantly, they propose ways to incentivize they type of development we want by reducing process and appeal avenues.

1. **Remove the eligibility criteria that requires lots to be a minimum size or distance from a major transit stop.** Although larger lots and parcels closer to major transit routes may be more popular for this type of development, lots should not be excluded just for lacking one of these criteria. Like Supervisors Mandelman and Mar's proposals, the program should be open to all RH zoned lots.

2. **Refocus the fee to projects that are not proposing to increase density, instead of requiring on-site affordable units or an in-lieu fee of projects utilizing the density exception. Use these funds to increase funding to housing programs that assist first time home buyers.** The proposed fee and on-site requirement are added costs to residents attempting to build an already significantly expensive development project. These requirements also do not serve to incentivize the type of housing the City needs most, especially in its lowest density districts. Instead of focusing fee and inclusionary units on projects that seek to increase their density on RH lots, fees should be focused on projects that *do not* increase density, such as single-family home construction or expansion projects. These fees should then be used to assist first time home buyers that have traditionally been excluded from the housing market to buy market rate units so that they can build and pass on equity to the next generation.

3. **Require a 1/3 unit proportionality requirement in addition to current bedroom count and minimum unit size requirements.** The current version of Supervisor Mandelman's fourplex ordinance (*now Board File No. 220446, at the time of print this ordinance had passed its 2nd read*), has modified the Department's original parity recommendation to require at least one of the dwelling units resulting from the density exception to have two or more bedrooms or have a square footage equal to no less than 1/3 of the floor area of the largest unit on the lot. The Department is supportive of this modification and would recommend the 1/3 requirement be incorporated into Supervisor Safai's ordinance, which currently requires at least one unit

to contain 2 bedrooms and has minimum unit sizes set by TCAC. Unit parity ensures residents of various household sizes and needs have options in their housing. Unit parity additionally encourages applicants to use the building envelope more equitably rather than taking advantage of a streamlined process for a very large house with little space given to the other units.

4. Pursue the adoption of objective residential design standards. Objective residential design standards reduce yet one more uncertainty in the development process for applicants. The Department should develop specific standards for projects seeking to utilize the density exception.

5. Recommend amendments to the Subdivision Code for projects that meet certain requirements to apply to form condos via new construction pathways. Currently, if a project is considered new construction, it may be delivered as condominiums. If, however, an existing unit(s) would like to add an additional unit or units, the building must first:

   - Have every unit owner occupied for at least 1 year (thereby necessitating the formation of a Tenancy in Common or TIC)
   - File an application to convert the building to condos with an average wait time of over one year
   - Finance the project either as a jumbo loan shared among owners, or receive Tenancy in Common financing, and then refinance as separate mortgages once the condo conversion is approved

   These processes create a financial and process burden that the average homeowner cannot afford. It also increases risk for homeowners who would like to sell the new unit they build as a condo versus a TIC. Allowing owners who retain an existing unit(s) while adding density to go through the same condominium establishment process as new construction also reduces the incentive to demolish existing housing.

6. Exclude properties with tenants in the past three years or Ellis Act Evictions within 15 years, and do not allow demolition of rent-controlled units. Requiring bonus units to be subject to rent control? The Department recognizes that equitable outcomes mean protecting existing tenants, especially those who are rent-burdened, on fixed incomes, low-income, those with disabilities, those who identify as LBGTQAI+, seniors, and people of color. Controls such as excluding properties with tenants in the past three years or Ellis Act Evictions within 15 years and not allow demolition of rent-controlled units would help protect these vulnerable populations.

7. Require bonus units to be subject to rent control after a period of stabilization. Supervisor Mandelman's ordinance was amended to require rent control on any new units. Consistent with recent amendments that were added to Supervisor Peskin's recent ballot initiative requiring rent control on new construction, the Department is recommending that new units created under this program also be subject to rent control, but only after a period of stabilization, for example 15 years after construction. This will provide developers with some assurance that they can recoup their investment, while also creating new rent-controlled units after the financing of the building has been stabilized.

8. Historic properties seeking to utilize the density exception will not be subject to priority processing timelines. For projects dealing with historic properties, a more in-depth review may be necessary, including requiring Conditional Use authorization. This type of review takes time and consideration due to the historic review process. Prioritizing these projects when they will also not be exempt from Conditional Use authorizations will also be a large burden on staff resources. For those reasons, the Department recommends that the 180-day review deadline not apply to historic projects that will be subject to 317 review.

Required Commission Action

The proposed Ordinance is before the Commission so that it may approve it, reject it, or approve it with modifications.

Environmental Review

The proposed Ordinance meet the requirements of Senate Bill 10, Government Code 65913.5, and review under CEQA is not required.

Public Comment

As of the date of this report, the Planning Department has not received public comment regarding the proposed ordinances.

Attachments:

Exhibit A:	Draft Planning Commission Resolution for Board File No.
Exhibit B:	SB9 Feasibility Study and Department Summary
Exhibit C:	Triplex and Fourplex Feasibility Study and Department Summary
Exhibit D:	Updated Fourplex Feasibility Study, Policy Levers and Department Summary
Exhibit E:	Board File No. 211234

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EXHIBIT A

PLANNING COMMISSION DRAFT RESOLUTION

HEARING DATE: July 21, 2022

Project Name:	Density Limit Exception For Lots in RH zoning districts
Case Number:	2021-012246PCA [Board File No. 211234, Version 3]
Initiated by:	Supervisor Safai / Amended in Committee 4/25/2022
Staff Contact:	Audrey Merlone, Legislative Affairs Audrey.Merlone@sfgov.org, 628-652-7534
Reviewed by:	Aaron Starr, Manager of Legislative Affairs aaron.starr@sfgov.org, 628-652-7533

RESOLUTION APPROVING A PROPOSED ORDINANCE THAT WOULD AMEND THE PLANNING CODE TO CREATE A DENSITY BONUS PROGRAM IN RH (RESIDENTIAL, HOUSE) ZONING DISTRICTS; ADOPTING FINDINGS, INCLUDING ENVIRONMENTAL FINDINGS, PLANNING CODE SECTION 302 FINDINGS, AND FINDINGS OF CONSISTENCY WITH THE GENERAL PLAN AND PLANNING CODE SECTION 101.1.

WHEREAS, on April 25, 2022 Supervisor Safai amended a previously introduce proposed Ordinance under Board of Supervisors (hereinafter "Board") File Number 211234, which would amend the Planning Code to create a density bonus program in RH (Residential, House) zoning districts;

WHEREAS, The Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting to consider Version 3 of the proposed Ordinance on July 21, 2022; and,

WHEREAS, the proposed Ordinance meet the requirements of Senate Bill 10, Government Code 65913.5, and review under CEQA is not required; and

WHEREAS, the Planning Commission has heard and considered the testimony presented to it at the public hearing and has further considered written materials and oral testimony presented on behalf of Department staff and other interested parties; and

WHEREAS, all pertinent documents may be found in the files of the Department, as the custodian of records, at 49 South Van Ness Avenue, Suite 1400, San Francisco; and

WHEREAS, the Planning Commission has reviewed the proposed Ordinance; and

WHEREAS, the Planning Commission finds from the facts presented that the public necessity, convenience, and general welfare require the proposed amendment; and

MOVED, that the Planning Commission hereby approves with modifications the proposed ordinance. The Commission's proposed recommendation(s) is/are as follows:

1. Remove the eligibility criteria that requires lots to be a minimum size or distance from a major transit stop.

2. Refocus the fee to projects that are not proposing to increase density, instead of requiring on-site affordable units or an in-lieu fee of projects utilizing the density exception. Use these funds to increase funding to housing programs that assist first time home buyers.

3. Require a 1/3 unit proportionality requirement in addition to current bedroom count and minimum unit size requirements.

4. Pursue the adoption of objective residential design standards.

5. Recommend amendments to the Subdivision Code for projects that meet certain requirements to apply to form condos via new construction pathways.

6. Exclude properties with tenants in the past three years or Ellis Act Evictions within 15 years, and do not allow demolition of rent-controlled units.

7. Require bonus units to be subject to rent control after a period of stabilization.

8. Exclude historic properties seeking to utilize the density exception from the priority processing timelines.

Findings

Having reviewed the materials identified in the preamble above, and having heard all testimony and arguments, this Commission finds, concludes, and determines as follows:

The Department supports the overall goals Supervisor Safai's revised ordinance. We recognize the need to increase density in areas of the City that have historically seen little housing production while also producing more diverse and importantly affordable housing choices. The question then becomes whether these ordinances will accomplish the Supervisor's and Department's shared goals. The Department believes that by refocusing fees and costly inclusionary requirements away from projects that are producing the kind of housing the City wants and instead finding ways to incentivize this type of housing, a density exception proposal could be successful in producing new, modest density in our RH neighborhoods. The modifications that staff has recommended are to that end.

For the City to accomplish any meaningful housing production in our RH Districts, we will have to find ways to make it financially feasible. We know from our economic analysis that purchasing a single-family home and turning it into four units is not financially feasible under current conditions. In fact, our current Planning Code regulations as well as market conditions encourage the production of larger and larger single-family homes. To increase financial feasibility, the City should also look at reducing process on projects that we want to encourage. Staff strongly believes that our code should clearly promulgate the type of development we want and then reduce process and appeal barriers to make it easier to build those developments.

The City's best opportunity to rectify past injustice and open opportunities through increased density is to shape a local program that incentivizes density while providing subsidies for more affordability. The following recommendations attempt to modify the legislation to create resources for reducing barriers for communities of color to build equity or access income from their properties. They also appropriately densify RH districts in a way that reduces displacement and supports existing homeowners and renters. Importantly, they propose ways to incentivize they type of development we want by reducing process and appeal avenues.

General Plan Compliance

The proposed Ordinance and the Commission's recommended modifications are consistent with the following Objectives and Policies of the General Plan:

HOUSING ELEMENT

OBJECTIVE 1
IDENTIFY AND MAKE AVAILABLE FOR DEVELOPMENT ADEQUATE SITES TO MEET THE CITY'S HOUSING NEEDS, ESPECIALLY PERMANENTLY AFFORDABLE HOUSING.

Policy 1.6
Consider greater flexibility in number and size of units within established building envelopes in community based planning processes, especially if it can increase the number of affordable units in multi-family structures.

OBJECTIVE 4
FOSTER A HOUSING STOCK THAT MEETS THE NEEDS OF ALL RESIDENTS ACROSS LIFECYCLES.

Policy 4.6
Ensure that new permanently affordable housing is located in all of the city's neighborhoods, and encourage integrated neighborhoods, with a diversity of unit types provided at a range of income levels.

OBJECTIVE 5
ENSURE THAT ALL RESIDENTS HAVE EQUAL ACCESS TO AVAILABLE UNITS.

Policy 5.2
Increase access to housing, particularly for households who might not be aware of their housing choices.

Policy 5.4
Provide a range of unit types for all segments of need, and work to move residents between unit types as their needs change.

The proposed Ordinance, with all staff modifications, will allow areas of the City that have been restricted to single-family zoning for decades, to add modest density to their neighborhoods, thereby providing a larger range of housing choices for current and future residents. These range of housing units in size, type, and affordability will assist current residents with being able to stay within their existing community, even if their housing needs change. It will also open opportunities for new residents to move into neighborhoods that are currently exclusionary due to the lack of housing options for those who cannot afford to buy or rent a single-family home.

OBJECTIVE 10
ENSURE A STREAMLINED, YET THOROUGH, AND TRANSPARENT DECISION-MAKING PROCESS.

Policy 10.2
Implement planning process improvements to both reduce undue project delays and provide clear information to support community review.

The proposed Ordinance, with all staff modifications, will promote modest density across RH districts in the City through the addition of residential units and ADU's. The proposed Ordinance with modifications also incentivizes adding modest density over building/expanding large, single-family homes in RH districts through the alleviations from cost/time burdensome permit processes.

Planning Code Section 101 Findings

The proposed amendments to the Planning Code are consistent with the eight Priority Policies set forth in Section 101.1(b) of the Planning Code in that:

1. That existing neighborhood-serving retail uses be preserved and enhanced and future opportunities for resident employment in and ownership of such businesses enhanced;

   The proposed Ordinance would not have a negative effect on neighborhood serving retail uses and will not have a negative effect on opportunities for resident employment in and ownership of neighborhood-serving retail.

2. That existing housing and neighborhood character be conserved and protected in order to preserve the cultural and economic diversity of our neighborhoods;

   The proposed Ordinance would not have a negative effect on housing or neighborhood character.

3. That the City's supply of affordable housing be preserved and enhanced;

   The proposed Ordinance would not have an adverse effect on the City's supply of affordable housing.

4. That commuter traffic not impede MUNI transit service or overburden our streets or neighborhood

parking;

The proposed Ordinance would not result in commuter traffic impeding MUNI transit service or overburdening the streets or neighborhood parking.

5. That a diverse economic base be maintained by protecting our industrial and service sectors from displacement due to commercial office development, and that future opportunities for resident employment and ownership in these sectors be enhanced;

   The proposed Ordinance would not cause displacement of the industrial or service sectors due to office development, and future opportunities for resident employment or ownership in these sectors would not be impaired.

6. That the City achieve the greatest possible preparedness to protect against injury and loss of life in an earthquake;

   The proposed Ordinance would not have an adverse effect on City's preparedness against injury and loss of life in an earthquake.

7. That the landmarks and historic buildings be preserved;

   The proposed Ordinance would not have an adverse effect on the City's Landmarks and historic buildings.

8. That our parks and open space and their access to sunlight and vistas be protected from development;

   The proposed Ordinance would not have an adverse effect on the City's parks and open space and their access to sunlight and vistas.

Planning Code Section 302 Findings.

The Planning Commission finds from the facts presented that the public necessity, convenience and general welfare require the proposed amendments to the Planning Code as set forth in Section 302.

NOW THEREFORE BE IT RESOLVED that the Commission hereby APPROVES WITH MODIFICATIONS the proposed Ordinance as described in this Resolution.

I hereby certify that the foregoing Resolution was adopted by the Commission at its meeting on July 21, 2022

Jonas P. Ionin
Commission Secretary

AYES:

NOES:

ABSENT:

ADOPTED: July 21, 2022

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EXHIBIT B

MEMO TO THE PLANNING COMMISSION

Supplemental

January 11, 2022

Project: Summary of SB 9 Financial Feasibility Analysis
Case Number: 2018-016522CWP
Staff Contact: James Pappas, Senior Planner, 628.652.7470, james.pappas@sfgov.org
Reviewed by: Joshua Switzky, Land Use Program Manager, 628.652.7464 joshua.switzky@sfgov.org; and Maia Small, Community Equity Policies and Strategies Manager, 628.652.7373, maia.small@sfgov.org

Recommendation: None- Informational

Background

The San Francisco Planning Department has contracted with consultant Century Urban to analyze the financial feasibility for property owners and/or developers of adding housing units to an existing single-family home. As part of this work, Century Urban has analyzed prototypes based on potential projects that may be possible under recently enacted California Senate Bill (SB) 9, which allows for duplexes on most parcels currently zoned as RH-1 as well as the potential for a lot split with a duplex allowed on the resulting lots. More information on SB 9 can be found in a memo and presentation to the Planning Commission from October 21, 2021.

This summary highlights key findings and assumptions from high level financial analyses that Century Urban performed on development prototype projects in different neighborhoods representative of potential scenarios under SB 9 in San Francisco. This type of financial analysis is important to understand the potential financial costs and benefits of small multifamily housing developments, the types of owners or developers likely to undertake them, where such developments may be more likely to occur, and the barriers or challenges as well as potential tools for future research that might support the addition of more housing.

Assumptions

In late 2021, Century Urban analyzed potential for development of small multifamily buildings on sites with existing single-family homes. For this analysis, Century Urban reviewed prototype developments using general market assumptions for unit types, costs, rents, sale prices, financing, and other factors that shape feasibility and likelihood of development. While financial feasibility (discussed more below) was assessed using metrics typically used by housing developers, the prospective developments and their economic performance are largely similar for long time property owners wishing to add units to an existing property as for housing developers.

Development Scenarios, Tenure, and Neighborhoods

Century Urban analyzed six development prototype scenarios to assess potential financial costs and benefits to a property owner or developer of adding homes under SB 9. Century Urban analyzed both for-sale and rental versions of each of the scenarios and researched rents and sale pricing in different neighborhoods, specifically Bayview, Inner Richmond, and Pacific Heights. The first scenario assumes demolition of an existing single-family home and construction of a larger home along with a small additional unit. The other five scenarios retain the existing home and add from one to three units in the ground floor of the existing home, the yard, or in both the ground floor and yard. Prior to this analysis on SB 9, Century Urban, on behalf of the Controller's office, had conducted an initial feasibility analysis of 3- and 4-unit redevelopments of existing single-family homes in San Francisco. Early findings from this analysis showed much higher costs and lower financial feasibility for projects that demolish an existing home and, for this reason, the analysis described here focuses on retention of an existing home with the exception of the scenario of building a large single-family home and small additional unit. Planning will continue to work with Century Urban to analyze the financial feasibility of fourplex projects to inform pending legislation and will release information on this analysis when complete.

Defining Costs and Financial Feasibility

In this analysis costs for developing housing are broken down into three broad categories:

- Hard costs for construction labor and materials, and
- Soft costs for architecture and engineering, financing costs, permits and fees, etc. and
- Land costs for purchasing the parcel on which a project would be built.

In addition to development costs, there are costs for selling or renting new housing such as marketing and brokerage fees and for rental properties ongoing costs of maintenance, property taxes, and insurance. Given that someone must be compensated for their time spent developing a project as well as for the inherent risk associated with investing money in property development, the analysis assumes a return to the property owner/developer of 20% of hard and soft costs, a real estate industry standard.

Century Urban used two main metrics to assess financial feasibility:

- Return on cost, the annual rate of return the owner would receive relative to the total project development cost before debt service. The annual rate of return can be compared to other potential investments as a way to assess whether the project is an attractive investment.
- Residual value, the amount that a purchaser of a home or land can afford to pay for that home or land and still have a profitable project. Residual value is calculated by subtracting the hard and soft costs of the project and developer profit from the total net sale value of the project. If the residual value is below the estimated sale price for an existing single-family home then a property owner would be less financially motivated to invest in additional units and a developer would be unable to match typical offers from other single-family home buyers.

Even where projects are financially infeasible or unprofitable, homeowners may have other motivations to construct units at their properties, including creating housing for family members or friends; lack of concern with achieving a specific financial return; hope that, while not profitable now, the units may be more valuable or generate positive income in the more distant future; combining needed renovation with unit additions; or a preference for investing in their own property rather than in other potential investments.

Project Funding

For this analysis Century Urban used a simplifying assumption that a property owner or developer would be able to borrow 60% of the project cost to build the new units. The construction loans would range from an estimate of more than $100,000 for a small ground floor unit to $600,000 for two rear yard units to nearly $2 million to build a large single-family home with a small additional unit. This analysis has not addressed how the loan would be secured, but it would likely require a senior lien on real property or a qualified guarantor. In addition to the loan amount, the owner or developer would need to provide the remainder of the development cost likely through their own equity. The equity needed for the prototypes ranged from $76,000 for a small garage unit to $416,000 for the two rear yard units to $1.3 million for the large single-family home with small additional unit. An existing home could be used as an equity source, however, this would depend on the amount of equity available and the property owner's ability and willingness to take on additional debt.

Key Findings

Below are key findings from the financial feasibility analysis performed by Century Urban.

At Current Costs, Rental Rates, and Single-Family Prices, Financial Feasibility of Adding New Units is Challenging

In the scenarios analyzed, estimated residual values for a property on which a homeowner could add units (i.e., the amount someone could pay for the property) fell below current single family home prices in most cases. This indicates that it would be difficult for homeowners or developers to utilize or acquire a typical single-family home to add units at a cost that would result in a financially feasible project. In other words, single-family home buyers paying current prices for most homes would typically outbid a developer for the same property. For prototype scenarios in which a current homeowner planned to add units, remain in the property, and collect rental income, neither the projected investment returns nor the amount of annual cash flow is projected to be compelling compared to other potential investments.

The analysis is based on average or median costs, prices, and rents, and there may be circumstances when the price of an existing home is low enough that it is feasible for a developer to acquire an existing single-family home and construct additional units. For example, when a home is unusually small and/ or poorly maintained, a developer may face less competition from homebuyers who can afford single family home prices in San Francisco where the median price is over $1.5 million.

Hard Costs are by Far the Largest Cost of Adding Units

Construction costs, including labor and materials, are the largest component of the development costs for adding new units, typically representing 70-80% of development costs excluding land costs. As a result, while reducing other costs such as permits, fees, transaction costs, or compensation for a developer's time or investment may improve feasibility, the fundamental challenge with new project feasibility stems primarily from cost of construction relative to the value generated from rents and sale prices. Construction costs in San

Francisco, which are among the world's highest, are therefore a significant barrier to adding units to existing homes but also represent an area where cost reductions could make a substantial difference to feasibility.

For-sale Projects Are Stronger Than Rental Projects

Given similar construction costs, the for-sale scenarios resulted in higher residual land values or greater feasibility than the rental versions. In addition, the annual cash flow after debt service for the majority of the rental scenarios ranged from almost no income to less than $1,000 per month. Only in the highest rent areas studied such as Pacific Heights was estimated rental income after debt service likely to be more than a few thousand dollars per month for projects adding three units. This rental income would only be generated after investing tens if not hundreds of thousands of dollars, as discussed above, and at least a year in developing the project, limiting the financial appeal of adding rental units.

Financial Feasibility Does Not Change Significantly by Neighborhood

Financial feasibility is not substantially different in any of the neighborhoods reviewed. Pacific Heights, with higher rents and sale prices, also had high single-family home purchase prices, a barrier to adding units. Though neighborhoods like Bayview may have lower home prices, they may also have lower sales prices and rents while construction costs do not vary meaningfully by location and create a barrier to adding units in these neighborhoods. The scenario where an existing home is demolished and replaced with a larger home with a small additional unit seems to be possible only in the highest priced neighborhoods like Pacific Heights. Adding units to sell may be financially feasible in a minority of cases in mid-price areas like the Inner Richmond. In lower priced areas like the Bayview, adding a small ground floor unit to sell may be feasible in some cases but most other scenarios seem less likely.

Property Owners Face Financial Barriers but May Have Different Goals than Developers

Homeowners wanting to add units to their home may be intimidated by risk, lengthy timelines, high costs, and limited financial returns relative to the value of the existing home and relative to other potential investments. On the other hand, property owners may be motivated by other factors including the housing needs of family and friends and some may have the interest, time, and training to build additional units themselves. The City can explore additional tools and incentives to lower costs for property owners who wish to add housing units to their properties.

Conclusion and Next Steps

The analysis provided by Century Urban implies limited financial incentive for property owners and developers to undertake prototype projects using SB 9, however, does not rule out that some property owners may undertake projects to add housing using SB 9 in the future or that development may be financially feasible in projects differing from the average assumptions used in the prototypes. In general, changes in key factors, for example construction costs, could affect project feasibility and likelihood of adding units for existing property owners and developers alike. Planning will continue to work with Century Urban on analysis of financial feasibility of small multi-family (e.g. fourplex) developments on existing single family home parcels and will publish findings from this analysis in the near future to inform proposed legislation and local policy.

See Attached Small Multifamily Analysis From Century | Urban focused on SB 9 Prototypes.

Century | Urban

Strategic Real Estate Advisory Services

Small Multifamily – Conceptual Analysis

Presented to:

City of San Francisco, Planning Department

December 14, 2021

235 Montgomery Street, Suite 1042 | San Francisco, CA 94104 | 415.786.2875 | www.centuryurban.com

SMALL MULTIFAMILY – CONCEPTUAL ANALYSIS

TO: City of San Francisco, Planning Department

FROM: Century | Urban

SUBJECT: Small Multifamily – Conceptual Analysis

DATE: December 14, 2021

Summary

The City of San Francisco, Planning Department (the "City") has engaged Century | Urban to conduct certain analyses regarding potential new residential development that may result from the passage of California Senate Bill 9. Specifically, the City has requested analysis of the following scenarios: 1) redevelopment of a single family home into a larger prototype home with an additional unit (Scenario 1), or 2) the development of up to three additional units on a lot with an existing single family prototype home (Scenarios 2-6).

Century | Urban prepared a high-level conceptual analysis, including six scenarios identified by the City. Each scenario included both for-sale and for-rent versions, and each scenario was applied to three neighborhoods, Pacific Heights, the Inner Richmond, and the Bayview. The specific scenarios and preliminary results of the analysis are summarized in the attached Exhibit A.

Analysis Qualifications

The analysis referenced in this memorandum utilizes prototypical projects that represent high-level average or median project assumptions observed in the market at the time of analysis preparation. The prototypical projects do not correspond with any particular actual project or actual economics. Any actual project may reflect dramatically different costs, rental rates, sale prices, or other details and by contrast to the prototype is driven by the particular circumstances of that project including its sponsor, history, site conditions, contractor, business plan, and/or other factors. Moreover, the criteria and assumptions utilized in selecting and analyzing the prototype assumptions are specific to the time the analysis was prepared and the research was conducted, and any such assumptions will likely change over time as sale prices, rental rates, development costs, lender/investor return targets, and land costs change over time based on market conditions.

Key Assumptions

For the analysis, Century | Urban utilized lot and unit sizes provided by the City and assumptions shown in the attached Exhibit B. To prepare the analysis, Century | Urban researched rental rate and sale comparable information for the three neighborhoods.

This conceptual analysis includes several simplifying assumptions including assuming similar hard costs and designs across the three neighborhoods, 60% loan-to-cost construction financing for the projects, sale of additional units as separate condominium units, as well as other assumptions. In addition, while 12 months of past sale comparable information and available comparable rental rates were utilized for each of the various size prototype units in each of the neighborhoods, the amounts shown in Exhibit A are based on averages or weighted averages of the research data. Consequently, unless otherwise noted, the results of this analysis reflect potential outcomes for an average unit or home, not for any particular instance or case.[1]

Century | Urban calculated the residual value of each scenario by subtracting the estimated development costs from the projected net sales value of the completed development projects. The residual value represents the maximum cost of land / initial home cost at which a homeowner/developer would achieve "economic feasibility" for the development project.[2] Typically, where the market value of land exceeds residual value, proceeding with development would not be considered feasible.

High Level Conclusions

- Projected equity capital requirements based on the 60% loan-to-cost assumption for the six prototype scenarios are shown in Exhibit A. The required equity capital contribution amounts may exceed the available funds or home equity of many homeowners, which may affect a homeowner's ability to pursue new development or redevelopment.
- In Exhibit A, Century | Urban estimates the amount of annual net operating income for a rental use for the six scenarios[3], which suggest several potential conclusions: 1) the amount of potential income may not be sufficient to incentivize for-profit third-parties to develop such projects themselves or to partner with homeowners to develop these projects; 2) for homeowners, the projected annual income generated from the project may not be worth the time, effort, and risk required to pursue development.
- The estimated annual return on cost for renting additional units are shown in Exhibit A. These returns indicate that while higher returns may be generated in higher rent

[1] Century | Urban notes that construction costs vary over time, additional unit sizes are in practice driven by actual available buildable square footage at a property, and rental rates and sale costs respond to macro- and micro-economic market conditions. Therefore, the general conclusions noted below apply to the prototypes examined at the time of the examination, but not necessarily over a larger timescale or in specific instances.

[2] Economic feasibility in this memorandum is used to mean that upon sale, the homeowner/developer would receive a return of their total investment plus a 20% profit on the new development cost expenditure. The 20% amount is assumed to compensate for homeowner for the significant time and capital invested to complete a San Francisco redevelopment project.

[3] These amounts do not include deductions for debt service or personal taxes.

submarkets, the returns may not be sufficiently compelling to attract third-party for-profit investment in these developments from traditional real estate investors.

- For Scenario 1, of the three neighborhoods, only the residual value of the Pacific Heights prototype home exceeds the estimated median home price for a 1,500 square foot home.[4] In the Inner Richmond and Bayview scenarios, the residual value of the large prototype home redevelopment does not exceed the estimated median home price. These results suggest that this redevelopment prototype may not be economically feasible for average single-family home lots in the Inner Richmond and the Bayview but may be feasible in Pacific Heights.
- In Scenarios 2-6, where units are added to an existing single-family home, residual values are calculated assuming either 1) for the for-sale scenarios, the sale of the units as separate condominium units or 2) for the rental scenarios, the sale of the single-family home with the value of up to three rental units attached.
  - While the residual value of the for-sale scenarios is greater than the residual value of the rental scenarios, the residual values of both the for-sale and for-rent scenarios fall beneath the estimated purchase prices by a typical single-family home buyer for a 1,500-square-foot home in the respective neighborhoods. The difference between the two ranges from $30,000 to over $600,000.
  - The difference between the estimated residual values and purchase prices again suggests that these development prototypes may not be economically feasible.

[4] Estimate based on review of last twelve months of home sales in each neighborhood.

Exhibit A

Residual Values of Single Family Additional Unit Scenarios

Note: Amounts are rounded to nearest $1,000 or $10,000

Scenario #	Scenario
1	4,500-square-foot home + 350-square-foot additional unit
2	1,500-square-foot home + one 350-square-foot garage additional unit
3	1,500-square-foot home + one 800-square-foot yard additional unit
4	1,500-square-foot home + one 350-square-foot garage additional unit + one 800-square-foot yard additional unit
5	1,500-square-foot home + two 800-square-foot yard additional units
6	1,500-square-foot home + one 350-square-foot garage additional unit + two 800-square-foot yard additional units
	1,500-square-foot home reduced by 50 square feet for garage additional unit and 250 square feet for yard additional units (pass

Costs and Capital Required for Homeowner / Developer

Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Hard Costs	$2,800,000	$130,000	$420,000	$550,000	$840,000	$970,000
Soft Costs	$530,000	$60,000	$110,000	$150,000	$200,000	$240,000
Total Costs *	$3,330,000	$190,000	$530,000	$700,000	$1,040,000	$1,210,000
Assumed Financing	60%	60%	60%	60%	60%	60%
Approx. Equity Required	$1,332,000	$76,000	$212,000	$280,000	$416,000	$484,000

Returns and Values for Homeowner / Developer

Pacific Heights

	Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Homeowner Return	Total NOI - Additional Units	NA	$12,000	$33,000	$44,000	$65,000	$77,000
	Return on Cost - Addit. Units	*NA*	*6.2%*	*6.2%*	*6.4%*	*6.3%*	*6.4%*
	Debt Service on Permanent Loan		$7,000	$18,000	$24,000	$36,000	$42,000
	Cash Flow After Debt Service		$5,000	$15,000	$20,000	$29,000	$35,000
Residual Value	For Sale Scenario	$2,650,000	$1,880,000	$1,740,000	$1,900,000	$2,010,000	$2,160,000
	For Rent Scenario**	NA	$1,780,000	$1,610,000	$1,670,000	$1,740,000	$1,800,000

Historic Purchase Cost	(Trailing 12 Months)***	Low	Median	High
	for 1,500 SF SFH by Avg SF	$2,250,000	$2,500,000	$2,750,000
	Avg 2 Bedroom Price		$2,550,000	
	Avg 3 Bedroom Price		$3,900,000	

Inner Richmond

	Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Homeowner Return	Total NOI - Additional Units	NA	$10,000	$20,000	$31,000	$41,000	$51,000
	Return on Cost - Addit. Units	*NA*	*5.4%*	*3.9%*	*4.4%*	*3.9%*	*4.2%*
	Debt Service on Permanent Loan		$7,000	$18,000	$24,000	$36,000	$42,000
	Cash Flow After Debt Service		$3,000	$2,000	$7,000	$5,000	$9,000
Residual Value	For Sale Scenario	$540,000	$1,600,000	$1,420,000	$1,560,000	$1,580,000	$1,720,000
	For Rent Scenario**	NA	$1,490,000	$1,100,000	$1,130,000	$960,000	$980,000

Historic Purchase Cost	(Trailing 12 Months)***	Low	Median	High
	for 1,500 SF SFH by Avg SF	$1,575,000	$1,725,000	$1,950,000
	Avg 2 Bedroom Price		$1,730,000	
	Avg 3 Bedroom Price		$2,570,000	

Bayview

	Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Homeowner Return	Total NOI - Additional Units	NA	$7,000	$21,000	$28,000	$42,000	$49,000
	Return on Cost - Addit. Units	*NA*	*3.8%*	*4.0%*	*4.0%*	*4.1%*	*4.1%*
	Debt Service on Permanent Loan		$7,000	$18,000	$24,000	$36,000	$42,000
	Cash Flow After Debt Service		$0	$3,000	$4,000	$6,000	$7,000
Residual Value	For Sale Scenario	($1,580,000)	$1,020,000	$800,000	$820,000	$750,000	$770,000
	For Rent Scenario**	NA	$940,000	$690,000	$640,000	$530,000	$480,000

Historic Purchase Cost	(Trailing 12 Months)***	Low	Median	High
	for 1,500 SF SFH by Avg SF	$975,000	$1,050,000	$1,200,000
	Avg 2 Bedroom Price		$870,000	
	Avg 3 Bedroom Price		$990,000	

Notes:

** Excludes sale costs (marketing, brokerage), development profit, discount for loss of garage/yard, or condominium wrap insurance, which are factored into residual values below.*

*** Assumes original home sold as vacant single family home and additional units sold as rental apartments.*

**** Amounts are gross of sales costs, fees, and taxes.*

All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

Exhibit B

Residual Values Scenarios - Key Assumptions

Unit Sizes				
Large Home Redevelopment	4,500	square feet		
Garage Unit	350	square feet		
Backyard Unit(s)	800	square feet		
Home Loss for Garage Unit	50	square feet		
Home Loss for Backyard Unit(s)	250	square feet		

Hard Costs		
Max SF Home	$550	per square foot
Garage Unit	$350	per square foot
Yard Unit	$500	per square foot

Soft Costs			
Soft Costs as % of Hard Costs*			
Garage Unit Scenario	48%		
All Other Scenarios	19%	to	27%

Development Return	20%	of hard and soft costs

Revenue				
Gross Average Sale Prices	*Lowest Scenario*		*Highest Scenario*	
Pacific Heights	$1,219	PSF	$1,599	PSF
Inner Richmond	$1,025	PSF	$1,090	PSF
Bayview	$531	PSF	$756	PSF
Average Rent Estimates	*Lowest Scenario*		*Highest Scenario*	
Pacific Heights	$5.15	PSF	$5.27	PSF
Inner Richmond	$3.47	PSF	$4.85	PSF
Bayview	$3.53	PSF	$3.88	PSF

Expenses		
Vacancy	5%	of revenue
General Operating Expenses	$6,000	per unit annually
Insurance	$500	per unit annually
Real Estate Taxes	Caculated based on projected total value	
Permanent Financing	Assumes take-out of construction loan with no cash out, 3.75% interest rate and 30 year amortization, no fees	

Additional Unit Capitalization Rates	
Pacific Heights	3.75%
Inner Richmond	3.75%
Bayview	4.00%

Sales Costs / Value	
For Sale Brokerage	5%
For Rent Brokerage	3%
Transfer Taxes	Per City
Loss of Yard/Garage Discount	Not currently included

**Soft costs as a % of hard costs do not include sale costs (marketing, brokerage), development profit, discount for loss of garage/yard, or condominium wrap insurance.*
All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

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EXHIBIT C

MEMO TO THE PLANNING COMMISSION

Supplemental

February 3, 2022

Project: **Summary of Triplex and Fourplex Prototype Financial Feasibility Analysis**

Case Number: 2021-005878CWP

Staff Contact: James Pappas, Senior Planner, 628.652.7470,
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Reviewed by: Joshua Switzky, Land Use Program Manager, 628.652.7464
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Recommendation: None- Informational

Background

The San Francisco Planning Department has contracted with consultant Century Urban to analyze the financial feasibility for property owners and/or developers of building small multifamily buildings on sites currently occupied by an existing single-family home. As part of this work, Century Urban has analyzed prototypes based on potential projects that may be possible under recently proposed legislation to allow up to four units (fourplexes) on parcels where currently fewer units are allowed, specifically parcels with existing single-family homes.

This summary highlights key findings and assumptions from high level financial analyses that Century Urban performed on development prototype projects in selected neighborhoods representative of potential scenarios under proposed local legislation to allow fourplexes. This type of financial analysis is important to understand the potential financial costs and benefits of small multifamily housing developments, the types of owners or developers likely to undertake them, where and under what circumstances such developments may be more likely to occur, and the barriers or challenges affecting the potential addition of housing in San Francisco. This analysis is related to work on financial feasibility of potential projects that may be possible under State law SB 9.

Assumptions

Century Urban analyzed potential for development of small multifamily buildings on sites with existing single-family homes. For this analysis, Century Urban reviewed prototype developments using general market assumptions for unit types, costs, rents, sale prices, financing, and other factors that shape feasibility and likelihood of development. Initial triplex and fourplex prototypes were developed working with an architect. While financial feasibility (discussed more below) was assessed using metrics typically used by housing developers, the prospective developments and their economic performance are largely similar for long time property owners wishing to redevelop their property. Practical and financial constraints for existing owners to building triplex and fourplex prototype projects are discussed in more detail below.

Development Scenarios, Tenure, and Neighborhoods

Century Urban analyzed both triplex and fourplex prototype scenarios to assess potential financial costs and benefits for a property owner or developer. Century Urban analyzed both for-sale and rental versions of each of the prototype scenarios and researched rents and sale pricing in different neighborhoods, specifically Bayview, Pacific Heights, and various transit-served neighborhoods representing the "mid-tier" of the housing market including West Portal, Castro, Balboa Park, and Glen Park. Each of the scenarios assumed that a single-family home would be demolished and replaced with a new triplex or fourplex covering a similar footprint to a prototypical single-family home but rising to three or four stories. (Note that financial feasibility analysis of projects adding units to an existing home without demolition, such as might be possible under SB 9, was examined in a previous memo.) Century Urban analyzed each triplex and fourplex prototype with and without a parking space.

Defining Costs and Financial Feasibility

In this analysis costs for developing housing are broken down into three broad categories:

- **Hard costs** for construction labor and materials, and
- **Soft costs** for architecture and engineering, financing costs, permits and fees, etc. and
- **Land costs** for purchasing the parcel on which a project would be built.

In addition to development costs, there are costs for selling or renting new housing such as marketing and brokerage fees and for rental properties ongoing costs of maintenance, property taxes, and insurance. Given that someone must be compensated for their time spent developing a project as well as for the inherent risk associated with investing money in property development, the analysis assumes in the case of the for-sale prototypes, a return to the property owner/ developer of 18% of hard and soft costs and in the case of the for-rent prototypes, a target return on cost of 5.25%.

To assess financial feasibility for these prototype scenario projects, Century Urban calculated the **residual value**, the amount that a purchaser of a home or land can afford to pay for that home or land and still have a profitable project. Residual value is calculated by subtracting the hard and soft costs of the project and developer return from the total net sale value of the project. If the residual value is below the estimated sale price for an existing single-family home then a property owner would be less financially motivated to redevelop the property, and a developer would be unable to match typical offers from other single-family home buyers. For rental projects, the analysis assumes a target return on cost and then estimates the total amount a buyer could pay for a development parcel. This amount represents the residual value for the rental versions of the prototype developments.

Project Funding and Developer Profile

For this analysis Century Urban used a simplifying assumption that a property owner/developer would be able to borrow 65% of the project cost to build the new units. Because of the scale of these projects, loans could range from more than $2.1 million for a triplex development to more than $2.7 million for a fourplex. To provide financing at these amounts for these types of projects, lenders would likely require verified prior development experience as well as the net worth and financial liquidity to sufficiently fund the project and any cost overruns. Someone seeking to undertake a project of this scale would likely need to provide approximately 35% of the project cost in equity investment that would range from over $1.1 to nearly $1.5 million for a triplex and fourplex, respectively.

Given the costs involved in the development of a prototypical triplex or fourplex project and the relatively high level of development experience and financial resources needed, a professional developer would be more likely to consider the kinds of triplex and fourplex projects analyzed here than the average owner of an existing single-family home. For most existing homeowners, smaller scale projects to add housing units to their property in ways that are more modest modifications to existing properties, such as units added by converting existing space in ground floors, rear additions, or rear yard structures, may be more likely and manageable to take on.

Project Timing

Century Urban's analysis assumes entitlement, design, permits and financing, and construction of a triplex or fourplex development can be completed within one year. This is an optimistic assumption that may not reflect the typical timeline and complexity of entitling and building a small multifamily project in San Francisco.

Key Findings

Below are key findings from the financial feasibility analysis performed by Century Urban.

At Current Costs, Rental Rates, and Single-Family Prices, Financial Feasibility of Demolishing an Existing Single-Family Home to Develop New Triplexes and Fourplexes is Challenging

In the scenarios analyzed, estimated residual values for a prototype redevelopment (i.e., the amount someone could pay for the property) fell below current single family home sale prices in all cases analyzed. The "gap" between the residual value generated by prototype developments and median single family home prices in all neighborhoods analyzed was more than -$1 million. These results indicate that it would be extremely difficult for developers to produce a financially feasible project by acquiring a typical single-family home at typical market price to redevelop the site into a triplex or fourplex. In other words, single-family home buyers planning to maintain the home largely as-is and paying current prices would typically outbid a developer hoping to build a triplex or fourplex on the same property.

The analysis is based on average or median costs, prices, and rents, and there may be circumstances when the price of an existing home is low enough that it is feasible for a developer to acquire an existing single-family home and construct additional units. For example, when a home is unusually small and/ or poorly maintained, a developer may face less competition from homebuyers who can afford single family home prices in San Francisco where the median price is over $1.5 million.

Though all prototype projects analyzed appear financially infeasible, variations in the prototypes resulted in marginal changes to feasibility. Ownership prototype projects were marginally closer to feasibility than rental projects, projects without a parking space were marginally closer to feasibility than those with a parking space, and fourplex projects were marginally closer to feasibility than triplexes. The best performing of the prototypes analyzed was a for-sale, fourplex with no parking in Pacific Heights, however, this project was still far from being feasible as measured by the residual value compared to median home prices.

Low Financial Feasibility of Triplex and Fourplex Developments Makes Requiring Affordability Difficult

Some recent local legislative proposals to allow up to four units in areas currently restricted to fewer units would impose affordability requirements on at least one newly added unit, targeting rents and prices to a specific income level relative to the Area Median Income (AMI). Studies and data indicate that there are substantial unmet needs for housing affordable to moderate- and middle- income households, particularly for homeownership opportunities. Unfortunately, mandating units at 100%, 110%, or 140% of AMI appears to worsen already challenged financial feasibility. Given that prototype projects are far from feasible when assuming market rents and sale prices, requiring additional affordability simply increases the feasibility gap and further reduces the likelihood of new housing being built in triplexes or fourplexes. Affordability requirements could also inadvertently encourage development or expansion of single-family homes rather than triplexes or fourplexes by making single-family homes more financially appealing. Producing units that are affordable to middle income households, given the current market conditions, would require significant subsidy. Additionally, since the income generated by the new units would be fixed or reduced, it would create a burden on the project owner to repay a construction loan, potentially even making it difficult to obtain one in the first place.

Hard Costs are by Far the Largest Cost of Adding Units

Construction costs, including labor and materials, are the largest component of the development costs for adding new units, typically representing a little more than 70% of development costs excluding land costs. As a result, while reducing other costs such as permits, fees, transaction costs, or compensation for a developer's time or investment may have relatively minor impacts on feasibility, the fundamental challenge with new project feasibility stems primarily from cost of construction relative to the value generated from rents and sale prices. Construction costs in San Francisco, which are among the world's highest, are therefore a significant barrier to building triplex and fourplex projects but also represent an area where cost reductions could make a substantial difference to feasibility.

Financial Feasibility Is Challenging in All Neighborhoods

Financial feasibility is challenged in all neighborhoods reviewed because high construction costs are consistent throughout the city. Higher potential sale prices in Pacific Heights result in higher potential residual land values, however, higher single-family home purchase prices in Pacific Heights mean developers are still unlikely to outbid home buyers for typical properties. The financial feasibility gap in Pacific Heights could be multiple millions relative to the median home price. Neighborhoods with high development costs and lower rents and sale prices, such as the Bayview show no estimated residual value. In mid-tier neighborhoods near transit, feasibility is also challenged with residual value falling far below median home sale prices. In some rare cases, there may be single family homes sold at prices significantly below average in these mid-tier neighborhoods that could be closer to the residual values estimated in this analysis, resulting in the potential for a feasible project.

Property Owners Face Significant Financial Constraints to Creating Ground-up Triplexes and Fourplexes, but Smaller Additions to Existing Housing May be More Feasible

Existing property owners may have a variety of motivations for wanting to add housing to their properties that are not purely financial, including the housing needs of family and friends. However, owners with these motivations seem unlikely to take on the type of triplex and fourplex projects analyzed here. The scale of the prototype projects that demolish an existing single-family home and build a triplex or fourplex appears beyond the financial or technical reach of most existing single-family homeowners. The financial feasibility challenges mean that it is also unlikely that professional developers will take on these projects in most cases.

Previous analysis of prototype projects potentially allowed under SB 9 show that projects that do not demolish an existing home may be more financially feasible than those that do, though feasibility is still challenging in large part due to high construction costs. The analysis of SB 9 prototype projects mostly looked at scenarios that would retain an existing home, including adding a unit in the ground floor of a home and/or adding one to two units in a rear yard. The lower construction costs associated with these potential projects, along with avoiding the potentially costly purchase and demolition of an existing home, make them relatively more financially feasible. Additionally, the size of the loan and equity needed for projects of that scale are lower than for demolition and ground-up fourplex construction, making those projects that modify or add on to existing homes possibly more within the practical reach for homeowners or small property owners. Retaining flexibility for these types of projects could be beneficial policy to enable more housing to be added in ways that are more affordable and represent less dramatic physical change to existing homes. While existing ADU legislation allows for similar types of rental units as were studied in relation to SB 9, allowing ownership options could expand homebuying opportunities for more people.

Conclusion and Next Steps

The analysis provided by Century Urban implies very limited financial incentive for property owners and developers to undertake prototype triplex and fourplex projects on a site with an existing single-family home. However, this does not rule out that some property owners may undertake projects to build triplexes and fourplexes in the future or that development may be financially feasible in projects differing from the average assumptions used in the prototypes. In general, changes in key factors, for example construction costs, could affect project feasibility and likelihood of adding units for existing property owners and developers alike though the size of the estimated feasibility gaps in most circumstances imply that significant changes would be needed for more projects to become feasible. Planning will continue to work with Century Urban on analysis of financial feasibility of fourplexes and other small multi-family development types on parcels with existing single-family homes including potential public policy tools to support improving feasibility and achieving greater levels of affordability.

Century | Urban

Strategic Real Estate Advisory Services

Small Multifamily Analysis – 3- and 4-Unit Prototypes – Conceptual Analysis

Presented to:

City of San Francisco, Planning Department

January 31, 2022

235 Montgomery Street, Suite 1042 | San Francisco, CA 94104 | 415.358.1218 | www.centuryurban.com

SMALL MULTIFAMILY ANALYSIS – CONCEPTUAL ANALYSIS

TO: City of San Francisco, Planning Department

FROM: Century | Urban

SUBJECT: Small Multifamily Analysis – 3- and 4-Unit Prototypes – Conceptual Analysis

DATE: January 31, 2022

Summary

The City of San Francisco (the "City") has engaged Century | Urban to conduct certain analyses regarding potential changes to residential zoning laws allowing single-family residential properties to be redeveloped into three- and four-plex residential properties.

Century | Urban prepared a high-level conceptual analysis of for-rent and for-sale three- and four-plex prototype development projects. An analysis of each scenario with and without parking was prepared for three neighborhoods, Pacific Heights, a prototype "Mid-Tier"[1] neighborhood, and the Bayview. The specific scenarios and preliminary results of the analysis are summarized in the attached Exhibit A and Exhibit B.

Analysis Qualifications

The analysis referenced in this memorandum utilizes prototypical projects that represent high-level average or median types of projects and high-level project assumptions at the time of analysis preparation. The prototypical projects do not correspond with any particular actual project or actual economics. Any actual project may reflect dramatically different costs, rental rates, sale prices, or other details driven by the circumstances of that project such as its sponsor, history, site conditions, contractor, business plan, and/or other factors. Moreover, the criteria and assumptions utilized in selecting and analyzing the prototypes are specific to the time the analysis was prepared and the research was conducted and will likely change over time as sale prices, rental rates, development costs, lender/investor return targets, and land costs change over time based on market conditions.

Key Assumptions

To prepare the conceptual analysis, research was conducted regarding development costs, and rental rate and sale price comparables, among other assumptions.

[1] Mid-Tier neighborhoods represented by the prototype include West Portal, Glen Park, Balboa Park, 24th St. and Castro.

This conceptual analysis includes simplifying assumptions shown in Exhibit C including assuming similar hard costs and designs across the three prototype neighborhoods, a fully-entitled project, and 65% loan-to-cost construction financing, as well as other assumptions. While past sale comparable information and available comparable rental rates were researched for each of the various size prototype units in each of the neighborhoods, the revenue and sale numbers shown in Exhibit A and resultant feasibility gaps reflected in Exhibit B are based on averages or weighted averages of the research data. Consequently, unless otherwise noted, the results of this analysis reflect potential outcomes for an average project, not for any particular instance or case.[2]

Century | Urban estimated the residual value of each scenario by subtracting the estimated development costs from 1) in the case of for-sale scenarios, net sales proceeds, and 2) in the rental scenarios, projected project values based on capitalizing income with estimated return on cost targets. The estimated residual values represent the supportable cost of land / initial home cost at which a developer would achieve "economic feasibility" for a given development project.[3] Typically, where the market value of a potential development site exceeds residual value, proceeding with development would not be considered feasible. The difference between the residual value and the median and minimum home prices reflected in the sales data from 2019-2021 is shown in Exhibit B as the "feasibility gap" for each scenario.

Initial Conclusions

- The analysis concluded that the estimated residual values for the rental scenarios range from $0 to $433,000 and the residual values for the for-sale scenarios range from $0 to $546,000. Of all the scenarios, the highest estimated residual value was generated by a for-sale fourplex prototype without parking.[4]
- All scenarios result in a feasibility gap representing a difference between the residual value of the projects and the sales prices of single-family homes (see Exhibit B). This difference suggests that for a project resembling one of the prototypes, a buyer of a single-family home who intends to use that home for occupancy would typically outbid a developer with a plan to redevelop the site into a three- or four-plex building.
- The analysis included base case and optimistic scenarios. In the optimistic scenarios, the rents were increased by $0.25 per square foot and sale prices were increased by $50 per square foot over the established base case scenarios. In all cases reviewed, the estimated residual values of the redevelopment scenarios are less than the median and minimum

[2] Century| Urban notes that construction costs vary over time, that additional unit sizes are in practice driven by actual available buildable square footage at a given property, and that rental rates and sale costs respond to macro- and micro-economic market conditions. Therefore, the general conclusions noted below apply to the prototypes examined at the time of the examination, but not necessarily over a larger timescale or in specific instances.

[3] Economic feasibility in this memorandum is used to mean that the homeowner/developer would receive a return of their total investment plus an approximately 18% profit margin on the new development cost expenditure.

[4] For projects which result in an infeasible residual value, the residual value in Exhibit A is shown as zero.

prices of homes in these neighborhoods based on 2019-2021 sales data for single family homes.

- The analysis of the Bayview neighborhood indicates that these scenarios would not support any residual value.
- The analysis of the Pacific Heights neighborhood reflects the highest residual values of the surveyed neighborhoods, with an estimated residual value as high as $546,000 for a four-plex project without parking in an optimistic scenario. However, as the costs of single-family homes in Pacific Heights are also the highest of the surveyed neighborhoods, the residual values are consistently less than the median or minimum price to purchase a home.
- As previously noted in a separate memorandum, the estimated residual values associated with single family home properties in which additional units are added to garages and backyards are generally higher than that of the three- and four-plex prototype development projects. This is due to the high cost of construction and the relatively larger amount of construction required in the demolition of a home and building of a new residential building, as opposed to the incremental addition of new residential square footage.

Exhibit A

Century | Urban
3-4 Plex Residual Value Scenarios - Residual Values and Key Assumptions

Residual Values

				Base Case			Optimistic		
Type	Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
V 1A	3	No	Sale	$0	$122,000	$268,000	$0	$268,000	$414,000
V 1C	3	Yes	Sale	$0	$109,000	$249,000	$0	$249,000	$390,000
V 1A	3	No	Rental	$0	$2,000	$168,000	$0	$168,000	$335,000
V 1C	3	Yes	Rental	$0	$0	$120,000	$0	$120,000	$280,000
III 2A	4	No	Sale	$0	$168,000	$357,000	$0	$357,000	$546,000
III 2C	4	Yes	Sale	$0	$96,000	$280,000	$0	$280,000	$463,000
III 2A	4	No	Rental	$0	$3,000	$218,000	$0	$218,000	$433,000
III 2C	4	Yes	Rental	$0	$0	$135,000	$0	$135,000	$345,000

Price Assumptions

	Base Case			Optimistic		
	Bayview	Mid-Tier	Pacific Heigths	Bayview	Mid-Tier	Pacific Heigths
Sale Price (PSF)	$800	$1,150	$1,200	$850	$1,200	$1,250
Monthly Rental PSI	$4.00	$5.25	$5.50	$4.25	$5.50	$5.75

Single Family Home Prices

	2019-2021 Single Family Home Sales		
	Bayview	Mid-Tier	Pacific Heights
Minimum	$575,000	$535,000	$1,217,000
Median	$950,000	$1,650,000	$5,350,000
Maximum	$1,625,000	$6,700,000	$14,500,000
Average	$990,000	$1,910,000	$6,050,000

Notes

1. *All financial and programmatic estimates are preliminary in nature, for illustrative purposes only, and subject to change*
2. *All amounts rounded to nearest $1,000*
3. *Rent analysis with parking assumes one space rented for $300 per month; sale analysis assumes one parking space sold for $100,000*
4. *Mid-Tier neighborhoods include West Portal, Glen Park, Balboa Park, 24th Street and Castro*
5. *Two data points are removed from the single family home sales prices in the Bayview and Mid-Tier markets which are considered to be outliers. In Pacific Heights, eight data points are removed representing home sales above $15 million.*

Exhibit B

Century | Urban
3-4 Plex Residual Value Scenarios - Feasibility Gap

Feasibility Gap Based on 2019-2021 Median Single-Samily Home Prices

Construction				Base Case			Optimistic		
Type	Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
V 1B	3	No	Sale	($1,869,000)	($1,528,000)	($5,082,000)	($1,720,000)	($1,382,000)	($4,936,000)
V 1C	3	Yes	Sale	($1,843,000)	($1,541,000)	($5,101,000)	($1,699,000)	($1,401,000)	($4,960,000)
V 1A	3	No	Rental	($1,799,000)	($1,648,000)	($5,182,000)	($1,629,000)	($1,482,000)	($5,015,000)
V 1C	3	Yes	Rental	($1,809,000)	($1,691,000)	($5,230,000)	($1,645,000)	($1,530,000)	($5,070,000)
III 2B	4	No	Sale	($2,128,000)	($1,482,000)	($4,993,000)	($1,935,000)	($1,293,000)	($4,804,000)
III 2C	4	Yes	Sale	($2,169,000)	($1,554,000)	($5,070,000)	($1,981,000)	($1,370,000)	($4,887,000)
III 2B	4	No	Rental	($2,047,000)	($1,647,000)	($5,132,000)	($1,827,000)	($1,432,000)	($4,917,000)
III 2C	4	Yes	Rental	($2,099,000)	($1,726,000)	($5,215,000)	($1,885,000)	($1,515,000)	($5,005,000)

Feasibility Gap Based on 2019-2021 Minimum Single-Family Home Prices

Construction				Base Case			Optimistic		
Type	Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
V 1B	3	No	Sale	($1,494,000)	($413,000)	($949,000)	($1,720,000)	($267,000)	($803,000)
V 1C	3	Yes	Sale	($1,468,000)	($426,000)	($968,000)	($1,699,000)	($286,000)	($827,000)
V 1A	3	No	Rental	($1,424,000)	($533,000)	($1,049,000)	($1,629,000)	($367,000)	($882,000)
V 1C	3	Yes	Rental	($1,434,000)	($576,000)	($1,097,000)	($1,645,000)	($415,000)	($937,000)
III 2B	4	No	Sale	($1,753,000)	($367,000)	($860,000)	($1,935,000)	($178,000)	($671,000)
III 2C	4	Yes	Sale	($1,794,000)	($439,000)	($937,000)	($1,981,000)	($255,000)	($754,000)
III 2B	4	No	Rental	($1,672,000)	($532,000)	($999,000)	($1,827,000)	($317,000)	($784,000)
III 2C	4	Yes	Rental	($1,724,000)	($611,000)	($1,082,000)	($1,885,000)	($400,000)	($872,000)

Notes

1. *All financial and programmatic estimates are preliminary in nature, for illustrative purposes only, and subject to change*
2. *All amounts rounded to nearest $1,000*

Exhibit C

Century | Urban
3-4 Plex Residual Value Scenarios - Key Assumptions

Prototype Sizes

Gross to Net / Efficiency 80.0%

			Net SF/Unit	
3-Unit Prototype	# Units	Unit Type	No Parking	Parking
	1	2-bedroom	975	825
	2	3-bedroom	1,475	1,475
Total	3		3,925	3,775

			Net SF/Unit	
4-Unit Prototype	# Units	Unit Type	No Parking	Parking
	1	2-bedroom	1,025	900
	3	3-bedroom	1,350	1,350
Total	4		5,075	4,950

Hard Costs

Residential	$500	per square foot
Parking	$400	per square foot for scenarios with parking
Contingency	5%	of Hard Costs

Soft Costs

Financing	65% LTC, 1% fee, 5% rate
A&E	10% of hard costs
Permits and Fees	Includes: School Impact fee, Childcare Impact Fee, PG&E Connection Fees, Wastewater Connect Fees, Water Capacity Fees, Other Utility Fees, Building
Total Soft Costs (approximate)	28% of Hard Costs

Revenue Assumptions

Rental assumptions *See Exhibit A*

Other Assumptions

Sale Value of Parking Space	$100,000	per space
Rental Scenario Assumptions		
Occupancy	95%	
Operating Expenses not incl. property taxes	$6,000	per unit/year
Capitalization Rate	4.25%	
Permanent Financing	Refinance construction loan amount; 4% rate, 30 year amortization	
Target Return on Cost	5.25%	
Sale Scenario Assumptions		
For Sale Brokerage	5%	
Closing Costs/Unit	$3,000	
Warranty Reserve	1%	
Target Profit Margin	18%	

Notes:
All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

Prototype Projected Cash Flow

			Base Case			Optimistic		
			Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
Units	Parking	Type						
3	No	Net Operating Income	$129,000	$173,000	$182,000	$137,000	$182,000	$191,000
3	No	Cash Flow After Debt Service	$5,000	$49,000	$58,000	$14,000	$58,000	$67,000
3	Yes	Net Operating Income	$126,000	$169,000	$177,000	$134,000	$177,000	$186,000
3	Yes	Cash Flow After Debt Service	$3,000	$46,000	$55,000	$12,000	$55,000	$63,000
4	No	Net Operating Income	$166,000	$223,000	$235,000	$177,000	$235,000	$246,000
4	No	Cash Flow After Debt Service	$6,000	$64,000	$75,000	$17,000	$75,000	$86,000
4	Yes	Net Operating Income	$161,000	$217,000	$229,000	$172,000	$229,000	$240,000
4	Yes	Cash Flow After Debt Service	$3,000	$59,000	$70,000	$14,000	$70,000	$81,000

Prototype Projected Capitalization

Rental Cases

			Base Case			Optimistic		
			Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
Units	Parking	Type						
3	No	Equity for Hard/Soft Costs	$1,154,000	$1,154,000	$1,155,000	$1,154,000	$1,155,000	$1,156,000
3	No	Debt for Hard/Soft Costs	$2,143,000	$2,143,000	$2,145,000	$2,143,000	$2,145,000	$2,148,000
3	Yes	Equity for Hard/Soft Costs	$1,139,000	$1,139,000	$1,140,000	$1,139,000	$1,140,000	$1,141,000
3	Yes	Debt for Hard/Soft Costs	$2,116,000	$2,116,000	$2,117,000	$2,116,000	$2,117,000	$2,120,000
4	No	Equity for Hard/Soft Costs	$1,488,000	$1,488,000	$1,490,000	$1,488,000	$1,490,000	$1,491,000
4	No	Debt for Hard/Soft Costs	$2,763,000	$2,763,000	$2,767,000	$2,763,000	$2,767,000	$2,770,000
4	Yes	Equity for Hard/Soft Costs	$1,476,000	$1,476,000	$1,477,000	$1,476,000	$1,477,000	$1,479,000
4	Yes	Debt for Hard/Soft Costs	$2,741,000	$2,741,000	$2,743,000	$2,741,000	$2,743,000	$2,746,000

Sale Cases

			Base Case			Optimistic		
			Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
Units	Parking	Type						
3	No	Equity for Hard/Soft Costs	$1,154,000	$1,155,000	$1,156,000	$1,154,000	$1,156,000	$1,157,000
3	No	Debt for Hard/Soft Costs	$2,143,000	$2,145,000	$2,147,000	$2,143,000	$2,147,000	$2,149,000
3	Yes	Equity for Hard/Soft Costs	$1,139,000	$1,140,000	$1,141,000	$1,139,000	$1,141,000	$1,142,000
3	Yes	Debt for Hard/Soft Costs	$2,116,000	$2,117,000	$2,119,000	$2,116,000	$2,119,000	$2,121,000
4	No	Equity for Hard/Soft Costs	$1,488,000	$1,489,000	$1,491,000	$1,488,000	$1,491,000	$1,492,000
4	No	Debt for Hard/Soft Costs	$2,763,000	$2,766,000	$2,769,000	$2,763,000	$2,769,000	$2,771,000
4	Yes	Equity for Hard/Soft Costs	$1,476,000	$1,477,000	$1,478,000	$1,476,000	$1,478,000	$1,479,000
4	Yes	Debt for Hard/Soft Costs	$2,741,000	$2,742,000	$2,745,000	$2,741,000	$2,745,000	$2,748,000

Note:

All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

Affordable Unit Sensitivity - Additional Estimated Impact on Residual Value/Feasibility

100% AMI for all units, rental and sale scenarios

			Base Case			Optimistic		
Units	**Parking**	**Type**	**Bayview**	**Mid-Tier**	**Pacific Heights**	**Bayview**	**Mid-Tier**	**Pacific Heights**
3	No	Sale	($1,519,000)	($2,893,000)	($3,089,000)	($1,716,000)	($3,089,000)	($3,286,000)
3	Yes	Sale	($1,399,000)	($2,721,000)	($2,909,000)	($1,588,000)	($2,909,000)	($3,098,000)
3	No	Rental	($1,219,000)	($2,070,000)	($2,240,000)	($1,389,000)	($2,240,000)	($2,410,000)
3	Yes	Rental	($1,115,000)	($1,933,000)	($2,097,000)	($1,279,000)	($2,097,000)	($2,261,000)
4	No	Sale	($1,883,000)	($3,659,000)	($3,913,000)	($2,136,000)	($3,913,000)	($4,166,000)
4	Yes	Sale	($1,783,000)	($3,515,000)	($3,763,000)	($2,030,000)	($3,763,000)	($4,010,000)
4	No	Rental	($1,500,000)	($2,600,000)	($2,820,000)	($1,720,000)	($2,820,000)	($3,040,000)
4	Yes	Rental	($1,414,000)	($2,487,000)	($2,701,000)	($1,628,000)	($2,701,000)	($2,916,000)

110% AMI for one rental unit, 140% AMI for one sale unit

			Base Case			Optimistic		
Units	**Parking**	**Type**	**Bayview**	**Mid-Tier**	**Pacific Heights**	**Bayview**	**Mid-Tier**	**Pacific Heights**
3	No	Sale	($19,000)	($360,000)	($409,000)	($68,000)	($409,000)	($458,000)
3	Yes	Sale	$0	($188,000)	($229,000)	$0	($229,000)	($270,000)
3	No	Rental	($154,000)	($366,000)	($408,000)	($197,000)	($408,000)	($450,000)
3	Yes	Rental	($50,000)	($229,000)	($265,000)	($86,000)	($265,000)	($301,000)
4	No	Sale	($59,000)	($418,000)	($469,000)	($110,000)	($469,000)	($520,000)
4	Yes	Sale	$0	($274,000)	($319,000)	($4,000)	($319,000)	($364,000)
4	No	Rental	($189,000)	($411,000)	($456,000)	($233,000)	($456,000)	($500,000)
4	Yes	Rental	($102,000)	($297,000)	($336,000)	($141,000)	($336,000)	($375,000)

Note:

1. Because of the unit size of the two bedroom in the scenarios with parking, the estimated market values of the for-sale two bedrooms in the Bayview fall below the estimated two bedroom affordable price

2. Additional estimated impact on residual land value/feasibility amount in tables above reflect amounts that would be added to the feasibility gap amounts if rents for one or

Sensitivity Analysis

	Range of Estimated Impact on Feasibility		
Reduce Interest Cost to 1%	$37,000	$55,000	
Reduce City Fees to $10,000	$123,000	$144,000	
Provide Transfer Tax Abatements	$20,000	$143,000	
Provide Property Tax Abatements	$414,000	$812,000	Rental scenarios only. 65% of property tax is assumed abated, based on estimated percentage received by City and County.

Note:

All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

EXHIBIT D

MEMO TO THE BOARD OF SUPERVISORS

Supplemental

May 6, 2022

Project: **Summary of Updated Analysis of Financial Feasibility of Fourplexes and Policy Levers**

Case Number: 2021-005878CWP

Staff Contact: James Pappas, Senior Planner, 628.652.7470, james.pappas@sfgov.org

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Recommendation: **None- Informational**

Background

The San Francisco Planning Department has been working with consultant Century Urban to analyze the financial feasibility for property owners and/or developers of constructing small multifamily buildings on sites currently occupied by an existing single-family home. As part of this work, Century Urban has analyzed prototypes of potential projects that may be possible under 2021 state law SB 9, summarized by Planning and Century Urban in a January 2022 memo, and prototype projects that may be possible under proposed local legislation to allow up to four units (fourplexes) on parcels where currently fewer units are allowed, summarized in a February 2022 memo (submitted as Exhibit E for the February 10th, 2022 Planning Commission hearing). These memos highlight key findings and assumptions from high level financial analyses that Century Urban performed on prototype projects in selected neighborhoods representative of potential scenarios under proposed local legislation and under SB 9.

In this third memo, Planning summarizes additional work from Century Urban, attached here, including a summary of financial feasibility for the various project prototypes previously studied and analysis of potential public policy levers that could be used to affect the feasibility of these small multifamily projects. This memo also explores how existing homeowners may assess opportunities to add additional housing units to an existing single-family home with different considerations and approaches than a professional developer. Overall, the analysis from Century Urban provides information on the financial costs and benefits of small multifamily housing developments, the types of owners or developers likely to undertake them, where and under what circumstances such developments may be more likely to occur, and the barriers or challenges affecting the potential addition of this type of housing in San Francisco.

Assumptions

Century Urban analyzed potential for development of small multifamily buildings on sites with existing single-family homes. Century Urban reviewed prototype developments using general market assumptions for unit types, costs, rents, sale prices, financing, and other factors faced by parties seeking to undertake such endeavors and that shape the feasibility and likelihood of development. Initial architectural prototypes were developed working with an architect to inform the assumptions which were adapted for the analysis. Financial feasibility (discussed more below) was assessed using metrics typically used by housing developers in assessing whether projects are worth the expense and risk of undertaking and are also considered by financial institutions in considering whether to underwrite loans for housing construction. For some homeowners seeking to add units to their properties or completely redevelop them, there may be different practical and financial approaches or considerations that are discussed in more detail below.

Development Scenarios, Tenure, and Neighborhoods

Century Urban analyzed both for-sale and rental versions of each of the prototype scenarios and researched rents and sale pricing in different neighborhoods, specifically Bayview, Pacific Heights, and various transit-served neighborhoods representing the "mid-tier" of the housing market including the Inner Richmond, West Portal, Castro, Balboa Park, and Glen Park. For most of the SB 9 scenarios, the prototype scenarios retained an existing single-family home while adding units to the ground floor or rear yard. The analysis of prototype three- and fourplexes assumed that an existing single-family home would have to be demolished to construct a new triplex or fourplex covering a similar footprint to a prototypical single-family home but rising to three or four stories. Century Urban analyzed each triplex and fourplex prototype with and without parking.

Project Costs and Timing

In this analysis costs for developing housing are comprised of three broad categories:

- **Hard costs** for construction labor and materials;
- **Soft costs** for architecture and engineering, financing costs, permits and fees, etc.; and
- **Sales and Rental Costs** for selling or renting new housing such as marketing and brokerage fees and for rental properties ongoing costs of maintenance, property taxes, and insurance.

While land costs are always a major factor in financial feasibility of any development, the structure of this type of analysis is to compare the "residual value" of a project derived from a development pro forma using revenues and non-land costs of development against the current price of the land to determine if the project can afford to purchase the land at the going market rate for property.

For SB9 prototypes, the range of total project costs ranges from $200,000 for addition of one small studio unit within the envelope of the ground level of an existing single-family house to $1.2m for addition of 3 units in a lot split scenario that include the aforementioned studio within a house plus a new structure with two modest units in a separate 2-story rear yard structure. For the triplex and fourplex prototypes that reflect the demolition and replacement of a house with a new larger multi-unit structure containing 3-4 multi-bedroom family-sized units averaging about 1,300 square feet, the combined total of hard and soft project costs range from $3.25m to $4.25m. As discussed below in the feasibility section, these costs exclude land cost, because the "residual value" of the project measured against the current value of property is the measure of feasibility.

Note that Century Urban's analysis assumes entitlement, design, permits, financing, and construction of a triplex or fourplex development can be completed within one year, as a result, the analysis assumes no pre-construction carrying costs for the prototype projects. For this analysis Century Urban also used a simplifying assumption that a project sponsor would be able to borrow 65% of the project cost to build the new units.

Financial Return and Feasibility Findings

To assess financial feasibility for these prototype scenario projects, Century Urban calculated the **residual value**, or the amount that a purchaser of a home or land can afford to pay for that home or land and construct one of these prototype projects. Residual value is calculated by subtracting the hard and soft costs of the project, as well as developer return, from the total net sale value of the project. If the residual value is below the estimated sale price for an existing single-family home then a property owner or developer would be less financially motivated to redevelop the property, and a developer would be unable to match typical offers from other single-family home buyers.

Where there is a negative difference between the residual value of the prototype project and the market value of an existing single-family home in the respective neighborhood, this is the "**feasibility gap**." As summarized in the February 2022 memo, the analysis found that all the prototypes analyzed in all neighborhoods had a feasibility gap, indicating that at current construction costs, rental rates, and single-family prices, financial feasibility of demolishing an existing single-family home to develop new triplexes and fourplexes is challenging.

The magnitude of the "gap" between the residual value generated by prototype developments and median single family home prices in all neighborhoods analyzed ranged from $1.3m-2m in mid-tier and lower cost neighborhoods to $5m in Pacific Heights. The analysis also calculated whether there is a "gap" when comparing the project residual values to the typical *minimum* (rather than median) home prices in the same neighborhoods, as, by definition half of houses for sale are valued at less than the median and there may be circumstances where a home is unusually small and/or poorly maintained relative to the typical condition. While the "gap" is substantially smaller in all of those cases, a "gap" remains across all scenarios with the lowest gaps of $300,000-$600,000 in the mid-tier neighborhoods.

Since there is a projected feasibility gap to replace a single-family house with a multi-family building, any restriction of rent or sale prices of the resulting units will add to that gap. The addition of affordability requirements would increase the feasibility gaps across the prototypes by typically several hundred thousand dollars to over one million dollars for the fourplexes with two required below market rate (BMR) units. A recent proposal to allow a fee payment in lieu of an on-site BMR unit would result in an estimated fee of up to $170,000 dollars, based on a maximum unit size of 740 square feet and current in lieu fee rate for the City's Inclusionary Housing program. This in lieu fee payment option could be cheaper than on-site units in some cases, however, would still add to the financial feasibility gap for three and fourplex developments.

Homeowner Considerations

Members of the Board of Supervisors and others have asked how the circumstances, motivations, and expectations of the typical homeowner might differ from those of the professional housing developer and thus would lead to different outcomes from those in the feasibility analysis described above and in prior memos.

The feasibility analysis conducted by Century Urban assumes that people considering what to do with property, whether a professional developer or a homeowner/property owner, are making financial decisions relative to risk, time, and alternative options for their investment. A small number of property owners may be interested in using the fourplex opportunity to redevelop their properties or add units based on factors beyond just the financial considerations.

In the prior feasibility analysis, Century Urban analysis assumed a project applicant receives compensation for their substantial financial investment, effort, time, and risk involved in developing a project in the form of an industry-benchmark 18% return and a target return on cost of 5.25% for rental projects. Given that some homeowners may be willing to accept lower returns or are motivated by non-financial goals such as housing family members, Century Urban further considered one illustrative example, using a fourplex scenario without parking, to look at how removing expected developer return would affect the feasibility analysis. This analysis shows that removing any expected return would still result in a feasibility gap of several hundred thousand dollars in the median home value scenarios. However, in the minimum home value scenario in the mid-tier neighborhood particularly, the project could eliminate this gap relative to the value of a house. This means that in some limited scenarios, a property owner could generate a modest income if they invest their land and financial resources into a redevelopment.

However, it is important to caveat any homeowner- driven development scenario by noting a few challenges that underlie such an undertaking. Leveraging their existing single-family home value, obtaining construction loan that would include refinancing existing debt, relocating during construction, tackling a complex development project, identifying and hiring a general contractor, and assessing an unpredictable real estate market are all significant challenges that most homeowners would face. For example, a homeowner would need a construction loan of potentially $2m+ for such a project, and construction loans are typically designed for those that have a track-record of doing such work.

For most existing homeowners, smaller-scale projects to add housing units in ways that are more modest modifications to existing properties, such as adding smaller units by converting existing space in ground floors, rear additions, or rear yard structures, may be more likely and manageable. These would require fewer financial resources, debt, and risks. Such scenarios would more resemble the SB9 scenarios analyzed than the new construction triplex and fourplex scenarios.

Levers that Could Impact Feasibility

As part of their analysis, Century Urban analyzed potential public policy "levers" that might be able to offset the financial barriers faced by property owners redeveloping an existing single-family home or adding units. These potential policy levers include lowered interest rate loans, reductions in City fees, and abatements of transfer taxes and property taxes. The magnitude of the financial benefit of each lever is provided relative to the residual value and feasibility gap of each scenario; in other words, the financial value expressed for each lever should be added to the feasibility gap (thus reducing the gap) of the respective scenario to see the effect of each lever or the combination of different levers.

Non-Governmental Factors

Construction Costs

Construction costs, including labor and materials, are by far the largest component of development costs for adding new units, typically representing a little more than 70% of development costs excluding land costs. Construction costs in San Francisco are among the world's highest and have escalated rapidly over the last 10 years creating a significant barrier to residential development. While not anticipated in the near to medium term given labor shortages and continued economic uncertainty, a hypothetical 10% reduction in construction costs could improve the feasibility of three- and fourplex projects by an estimated $300,000 to $380,000 respectively and improve feasibility of SB 9 prototype projects by an estimated $16,000 to $113,000 depending on the number of units added.

Income Return

Changes in rents and sale prices also heavily impact project feasibility. A 10% increase in rents and sale projects could prove project feasibility by hundreds of thousands of dollars for both three and four plex prototype projects and SB 9 prototypes.

Governmental Levers

While construction costs and rents and sale prices are the biggest determinants of project feasibility, there are also potential changes under the control of the City or State that could help support the development of small multifamily projects. Since many of these involve the city foregoing revenue from key revenue sources, such as taxes or fees, they should be weighed against other public investments and impacts that these monies could fund, for example, construction or acquisition of affordable housing units or down payment assistance. Century Urban has analyzed the potential financial effect of different policy levers for the various prototype projects studied in different housing markets in the city, helping to estimate both their scale of impact relative to the financial feasibility gap of prototype projects and providing an estimate of costs to the city.

<u>Construction loan with lowered interest rate of 1%</u> Offering property owners lower interest rate construction loans with a rate of 1%, likely through a subsidized program, would cut costs by a relatively minor amount. For three to fourplex prototype projects, the gap would be lowered by between $37,000 to just over $50,000 dollars while for most SB 9 prototypes the benefit would be between $2,000 and $15,000 dollars.

<u>City fees in excess of $10,000 waived</u>: Offering property owners a fee waiver for all fees in excess of $10,000 cumulatively could result in modestly lowering the gap by $124,000 or $144,000 per three or fourplex prototype project, while for SB 9 projects, it would lower the gap in a range from $4,000 to $32,000.

<u>Transfer tax abatement for initial sale of a property added units</u> This option would lower the feasibility gap by a wide range from $22,000 to $84,000 for three to fourplex prototype projects and $14,000 to $77,000 for SB 9 projects.

Abatement of the City and County's portion of property taxes for 40 years This would have the largest and most substantial impact on lowering the feasibility gap, although, as property taxes are regulated by State authority, there is currently no local legal pathway to accomplish it. The feasibility gap reduction would be between $390,000 and $711,000 for three and fourplexes and between $27,000 to $210,000 for SB 9 project prototypes.

Conclusion

The analysis provided by Century Urban suggests property owners and developers to undertake prototype triplex and fourplex projects on a site with an existing single-family home would encounter financial feasibility challenges. However, this does not rule out that some developers or property owners may undertake projects to build triplexes and fourplexes in the future, or that development may be financially feasible in projects differing from the average assumptions used in the prototypes. Changes in key factors, for example construction costs, could affect project feasibility and likelihood of adding units for existing property owners and developers alike.

Opening three and fourplex options for homeowners and small-scale developers may not bring immediate or widespread changes, but they invite adaptations to what is possible over time. There are many unique circumstances by site and providing simple pathways, and predictability in public policy and rulemaking can make a substantial difference in creating additional modestly sized housing units in our lower density, residentially zoned neighborhoods.

Century | Urban

Strategic Real Estate Advisory Services

Small Multifamily – Conceptual Scenario Analysis

Presented to:

City of San Francisco, Planning Department

May 6, 2022

235 Montgomery Street, Suite 1042 | San Francisco, CA 94104 | 415.358.1218 | www.centuryurban.com

SMALL MULTIFAMILY – CONCEPTUAL SCENARIO ANALYSIS

TO: City of San Francisco, Planning Department

FROM: Century | Urban

SUBJECT: Small Multifamily– Conceptual Scenario Analysis

DATE: May 6, 2022

Summary

The City and County of San Francisco (the "City") has engaged Century | Urban to conduct certain conceptual analyses regarding potential changes to residential zoning laws allowing single-family residential properties to be redeveloped into multi-unit residential properties.

Century | Urban previously prepared a high-level conceptual analysis of for-rent and for-sale scenarios including 1) adding up to three units to a single-family residence and 2) redeveloping a single-family home into three- and four-plex prototype developments. Certain scenarios were prepared with and without parking and each scenario was prepared across three neighborhoods: Pacific Heights, a prototype "Mid-Tier"[1] neighborhood, and the Bayview. The conceptual underwriting and scenario analysis below reflects analysis results assuming changes to certain underwriting assumptions as described below.

Analysis Qualifications

The assumptions or range of assumptions utilized in these scenario analyses do not correspond to any assessment of actual, current or past market conditions, nor do any assumptions in this underwriting represent any proposed policy. Assumptions have been selected for scenario analysis to demonstrate their relative impact on overall project feasibility.

The analysis referenced in this memorandum utilizes prototypical projects that represent high-level average or median types of projects and high-level project assumptions at the time of analysis preparation. The prototypical projects do not correspond with any particular actual project or actual economics. Any actual project may reflect dramatically different costs, rental rates, sale prices, or other details driven by the circumstances of that project such as its sponsor, history, site conditions, contractor, business plan, and/or other factors. Moreover, the criteria and assumptions utilized in selecting and analyzing the prototypes are specific to the time the analysis was prepared and the research was conducted and will likely change over time as sale prices,

[1] Mid-Tier neighborhoods represented by the prototype include West Portal, Glen Park, Balboa Park, 24th St. and Castro.

rental rates, development costs, lender/investor return targets, and land costs change over time based on market conditions.

Key Assumptions

Except as noted below, assumptions and methodologies utilized in the sensitivity analysis are the same as those utilized in prior analyses.

As previously noted, six scenarios were evaluated for the scenarios where up to three units are added to a single-family residence (i.e., the "SB9" analysis), which are described below:

Scenario #	Scenario
1	4,500-square-foot home + 350-square-foot additional unit
2	1,500-square-foot home + one 350-square-foot garage additional unit
3	1,500-square-foot home + one 800-square-foot yard additional unit
4	1,500-square-foot home + one 350-square-foot garage additional unit + one 800-square-foot yard additional unit
5	1,500-square-foot home + two 800-square-foot yard additional units
6	1,500-square-foot home + one 350-square-foot garage additional unit + two 800-square-foot yard additional units

Please note that, in the for-rent versions of the SB9 scenario analysis, the existing single-family home is assumed to be sold to an owner-occupier and not rented.

Summary of Prior Analyses and Current Scenario Analyses

1. **Feasibility Gap**

Charts A and B below reflect the estimated feasibility gaps for the three- and four-plex scenarios and SB9 scenarios, respectively. The feasibility gaps in these analyses reflect the difference between 1) the price a buyer could pay for a project site such that redevelopment of the site is financially feasible, and 2) the actual median and low-end prices for single family homes based on sales comparables in the respective neighborhoods between 2019 and 2021.

All units in the scenario analyses are assumed to be rented or sold at market rates. With one exception, all of the scenarios reviewed showed feasibility gap amounts ranging from $5,000 to over $5 million. In general, projects in the Bayview and Mid-Tier markets have lower estimated feasibility gap amounts than projects in Pacific Heights, where prices for a single-family home are higher. Additionally, four-unit projects have lower estimated feasibility gap amounts than three-unit projects, and SB9 projects which are assumed to maintain the existing single-family home have lower estimated feasibility gap amounts than the ground-up development of three- and four-unit projects.

Chart A: Feasibility Gaps in 3- and 4-Plex Scenarios

Feasibility Gap Based on 2019-2021 Median Single-Family Home Prices

Construction				Base Case			Optimistic Case		
Type	Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
V 1B	3	No	Sale	($1,892,000)	($1,561,000)	($5,117,000)	($1,744,000)	($1,417,000)	($4,972,000)
V 1C	3	Yes	Sale	($1,865,000)	($1,572,000)	($5,133,000)	($1,723,000)	($1,433,000)	($4,995,000)
V 1A	3	No	Rental	($1,799,000)	($1,648,000)	($5,182,000)	($1,629,000)	($1,482,000)	($5,015,000)
V 1C	3	Yes	Rental	($1,809,000)	($1,691,000)	($5,230,000)	($1,645,000)	($1,530,000)	($5,070,000)
III 2B	4	No	Sale	($2,158,000)	($1,524,000)	($5,038,000)	($1,967,000)	($1,338,000)	($4,851,000)
III 2C	4	Yes	Sale	($2,198,000)	($1,596,000)	($5,114,000)	($2,012,000)	($1,414,000)	($4,932,000)
III 2B	4	No	Rental	($2,047,000)	($1,647,000)	($5,132,000)	($1,827,000)	($1,432,000)	($4,917,000)
III 2C	4	Yes	Rental	($2,099,000)	($1,726,000)	($5,215,000)	($1,885,000)	($1,515,000)	($5,005,000)

Feasibility Gap Based on 2019-2021 Minimum Single-Family Home Prices

Construction				Base Case			Optimistic Case		
Type	Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
V 1B	3	No	Sale	($1,517,000)	($446,000)	($984,000)	($1,369,000)	($302,000)	($839,000)
V 1C	3	Yes	Sale	($1,490,000)	($457,000)	($1,000,000)	($1,348,000)	($318,000)	($862,000)
V 1A	3	No	Rental	($1,424,000)	($533,000)	($1,049,000)	($1,254,000)	($367,000)	($882,000)
V 1C	3	Yes	Rental	($1,434,000)	($576,000)	($1,097,000)	($1,270,000)	($415,000)	($937,000)
III 2B	4	No	Sale	($1,783,000)	($409,000)	($905,000)	($1,592,000)	($223,000)	($718,000)
III 2C	4	Yes	Sale	($1,823,000)	($481,000)	($981,000)	($1,637,000)	($299,000)	($799,000)
III 2B	4	No	Rental	($1,672,000)	($532,000)	($999,000)	($1,452,000)	($317,000)	($784,000)
III 2C	4	Yes	Rental	($1,724,000)	($611,000)	($1,082,000)	($1,510,000)	($400,000)	($872,000)

Chart B: Feasibility Gap in SB9 Scenarios

Feasibility Gap from Median Home Price

		Scenario					
Type	Neighborhood	1	2	3	4	5	6
Sale	Bayview	($2,630,000)	($30,000)	($250,000)	($230,000)	($300,000)	($280,000)
Sale	Inner Richmond	($1,185,000)	($125,000)	($305,000)	($165,000)	($145,000)	($5,000)
Sale	Pacific Heights	NA	($620,000)	($760,000)	($600,000)	($490,000)	($340,000)
Rental	Bayview	NA	($110,000)	($340,000)	($410,000)	($520,000)	($570,000)
Rental	Inner Richmond	NA	($235,000)	($625,000)	($595,000)	($765,000)	($745,000)
Rental	Pacific Heights	NA	($720,000)	($890,000)	($830,000)	($760,000)	($700,000)

Feasibility Gap from Minimum Home Price

		Scenario					
Type	Neighborhood	1	2	3	4	5	6
Sale	Bayview	($2,555,000)	NA	($175,000)	($155,000)	($225,000)	($205,000)
Sale	Inner Richmond	($1,035,000)	NA	($155,000)	($15,000)	NA	NA
Sale	Pacific Heights	NA	($370,000)	($510,000)	($350,000)	($240,000)	($90,000)
Rental	Bayview	NA	($35,000)	($265,000)	($335,000)	($445,000)	($495,000)
Rental	Inner Richmond	NA	($85,000)	($475,000)	($445,000)	($615,000)	($595,000)
Rental	Pacific Heights	NA	($470,000)	($640,000)	($580,000)	($510,000)	($450,000)

Notes:

All financial and programmatic estimates are preliminary in nature for illustrative purposes and subject to change.

2. Equity and Debt Requirements

Charts C and D below reflect the projected average equity and debt funding amounts needed for the 3- and 4-plex prototype projects and SB9 prototype projects. The 3 and 4-plex projects involve a greater cost since the entire structure must be newly constructed, whereas all of the SB9 scenarios except one assume the existing structure remains in place.

Chart C: Projected Equity and Debt Funding Amounts for 3- and 4-Plex Scenarios

Figures rounded to the nearest $100,000

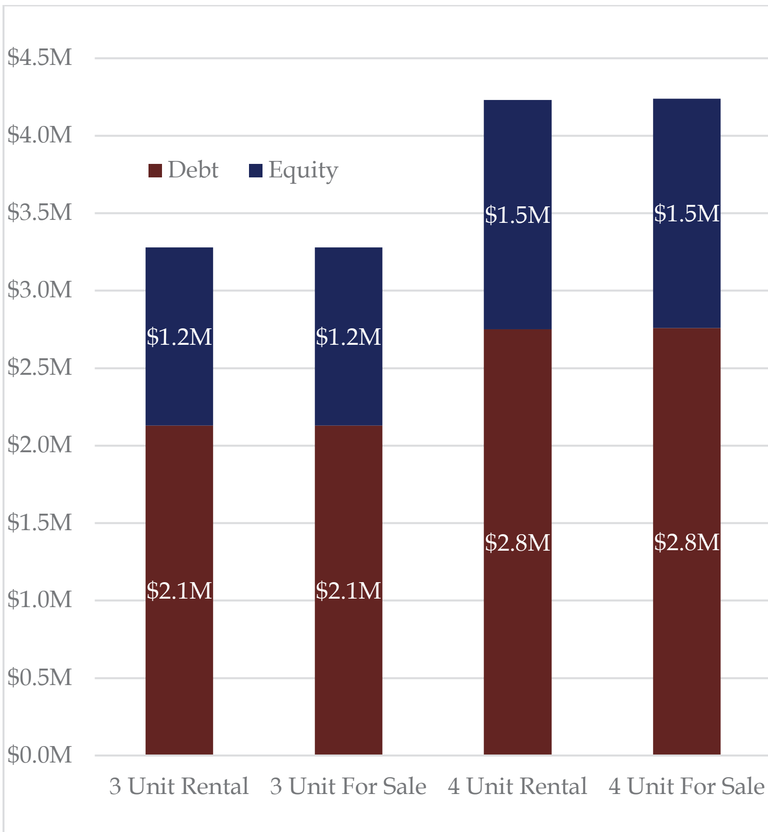
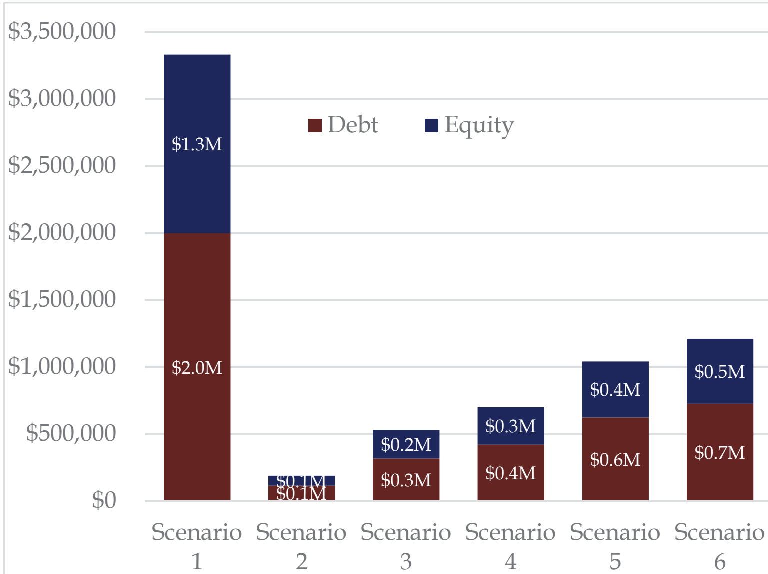


Chart D: Projected Equity and Debt Requirements for SB9 Scenarios

Figures rounded to the nearest $100,000



3. Net Operating Income and Cash Flow

Charts E and F below show the average annual net operating income and cash flow after debt service associated with the 3- and 4-plex scenarios and SB9 scenarios. The value of these estimated income and cash flows should be evaluated against the equity and debt funding amounts described above. For example, the average annual cash flow after debt service for the 4-plex Pacific Heights scenario is projected to be approximately $73,000, which represents a 4.9% return on the estimated average $1.48 million equity funding required to build the project.

Chart E: Projected Net Operating Income (NOI) and Cash Flow after Debt Service for 3- and 4-Plex Rental Protypes

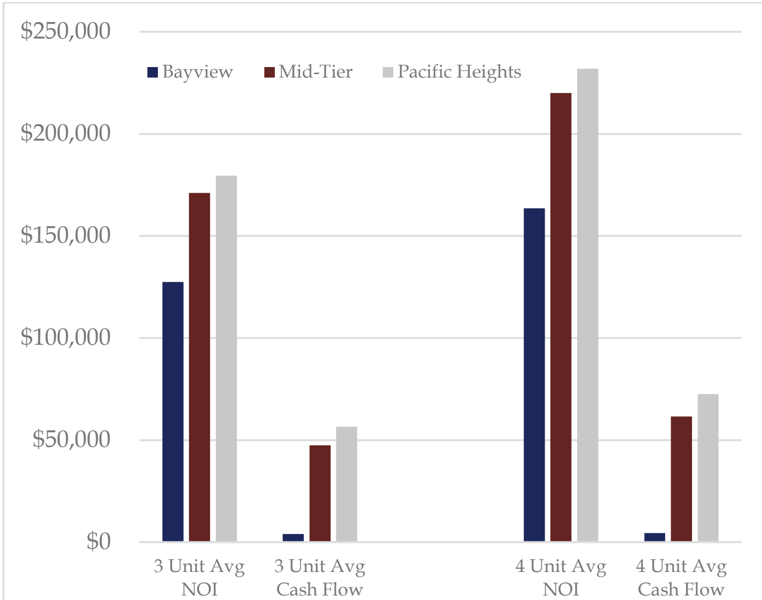
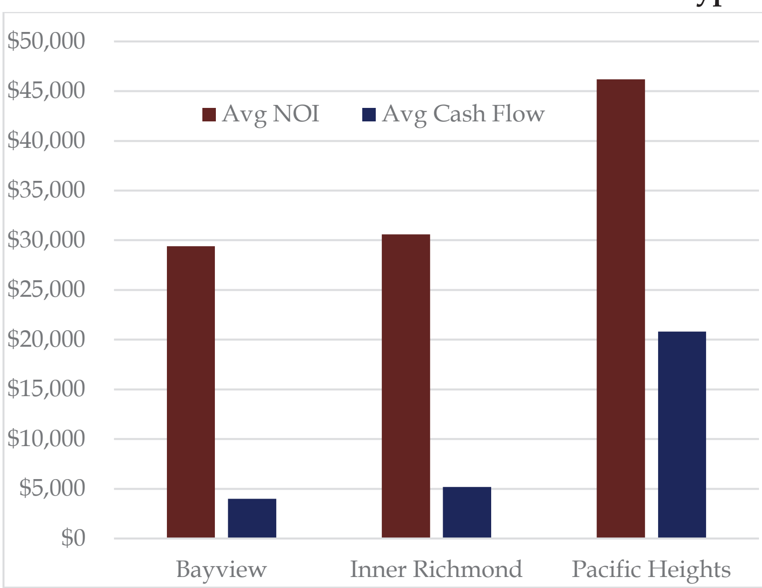


Chart F: Projected Annual Average Net Operating Income (NOI) and Cash Flow after Debt Service for SB9 Rental Prototypes



4. Affordable Scenarios

Chart G below shows the effect on the feasibility of the 3- and 4-plex scenarios of adding below-market rate units. The top portion of the chart reflects 3- and 4-unit prototypes in which two of the units are market rate units and the remaining one to two units are affordable to households earning no greater than 100% of Area Median Income ("AMI"). The bottom portion of the chart reflects the same unit mixes with one affordable unit at 110% AMI rental rates or 140% AMI sale prices. The amounts in the chart reflect the incremental increase in the estimated feasibility gap amounts in addition to the feasibility gap amounts listed in Chart A above.

Chart G: Estimated Incremental Increase in Feasibility Gap from Inclusion of Affordable Units

3-4 Plex Analysis

Two market rate units; remaining 1 or 2 units 100% AMI, rental and sale scenarios

			Base Case			Optimistic Case		
Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
3	No	Sale	($273,000)	($614,000)	($663,000)	($321,000)	($663,000)	($711,000)
3	Yes	Sale	($153,000)	($441,000)	($483,000)	($194,000)	($483,000)	($524,000)
3	No	Rental	($206,000)	($418,000)	($460,000)	($249,000)	($460,000)	($502,000)
3	Yes	Rental	($102,000)	($281,000)	($317,000)	($138,000)	($317,000)	($353,000)
4	No	Sale	($836,000)	($1,667,000)	($1,786,000)	($955,000)	($1,786,000)	($1,905,000)
4	Yes	Sale	($736,000)	($1,523,000)	($1,636,000)	($848,000)	($1,636,000)	($1,748,000)
4	No	Rental	($661,000)	($1,176,000)	($1,279,000)	($764,000)	($1,279,000)	($1,381,000)
4	Yes	Rental	($574,000)	($1,062,000)	($1,159,000)	($672,000)	($1,159,000)	($1,257,000)

110% AMI for one rental unit, 140% AMI for one sale unit

			Base Case			Optimistic Case		
Units	Parking	Type	Bayview	Mid-Tier	Pacific Heights	Bayview	Mid-Tier	Pacific Heights
3	No	Sale	($19,000)	($360,000)	($409,000)	($68,000)	($409,000)	($458,000)
3	Yes	Sale	$0	($188,000)	($229,000)	$0	($229,000)	($270,000)
3	No	Rental	($154,000)	($366,000)	($408,000)	($197,000)	($408,000)	($450,000)
3	Yes	Rental	($50,000)	($229,000)	($265,000)	($86,000)	($265,000)	($301,000)
4	No	Sale	($59,000)	($418,000)	($469,000)	($110,000)	($469,000)	($520,000)
4	Yes	Sale	$0	($274,000)	($319,000)	($4,000)	($319,000)	($364,000)
4	No	Rental	($189,000)	($411,000)	($456,000)	($233,000)	($456,000)	($500,000)
4	Yes	Rental	($102,000)	($297,000)	($336,000)	($141,000)	($336,000)	($375,000)

Note:

1. Because of the unit size of the two bedroom in the scenarios with parking, the estimated market values of the for-sale two bedrooms in the Bayview fall below the estimated two bedroom affordable price

2. Additional estimated impact on residual land value/feasibility amount in tables above reflect amounts that would be added to the feasibility gap amounts if rents for one or more units are set based on AMI levels as specified above.

5. Changes in Feasibility Due to Sale Prices/Rental Rates

Chart H below shows the average change in estimated feasibility gap amounts due to a 10% change in rents and sale prices. A 10% increase in rents and sale prices would reduce the feasibility gap amounts by the amounts shown in the chart, while a 10% decrease in rents or sale prices would increase the feasibility gap amounts by approximately the same amounts.

Chart H: Average Change in Feasibility Gap Due to 10% Change in Rents/Sale Prices

3- and 4-Plex Analysis

Scenario	*3 Unit For Sale*	*3 Unit For Rent*	*4 Unit For Sale*	*4 Unit Rental*
Bayview	$238,000	$270,000	$305,000	$348,000
Mid-Tier	$341,000	$353,000	$439,000	$457,000
Pacific Heights	$355,000	$370,000	$457,000	$478,000

SB9 Analysis

Scenario	*1*	*2*	*3*	*4*	*5*	*6*
10% Change in Sales Price - For Sale						
Pacific Heights	$737,000	$214,000	$242,000	$280,000	$332,000	$371,000
Richmond	$472,000	$186,000	$209,000	$246,000	$289,000	$326,000
Bayview	$245,000	$127,000	$146,000	$172,000	$205,000	$230,000
10% Change in Rental Rates - For Rent						
Pacific Heights		$39,000	$86,000	$124,000	$172,000	$210,000
Richmond		$21,000	$26,000	$47,000	$53,000	$73,000
Bayview		$27,000	$56,000	$83,000	$112,000	$139,000

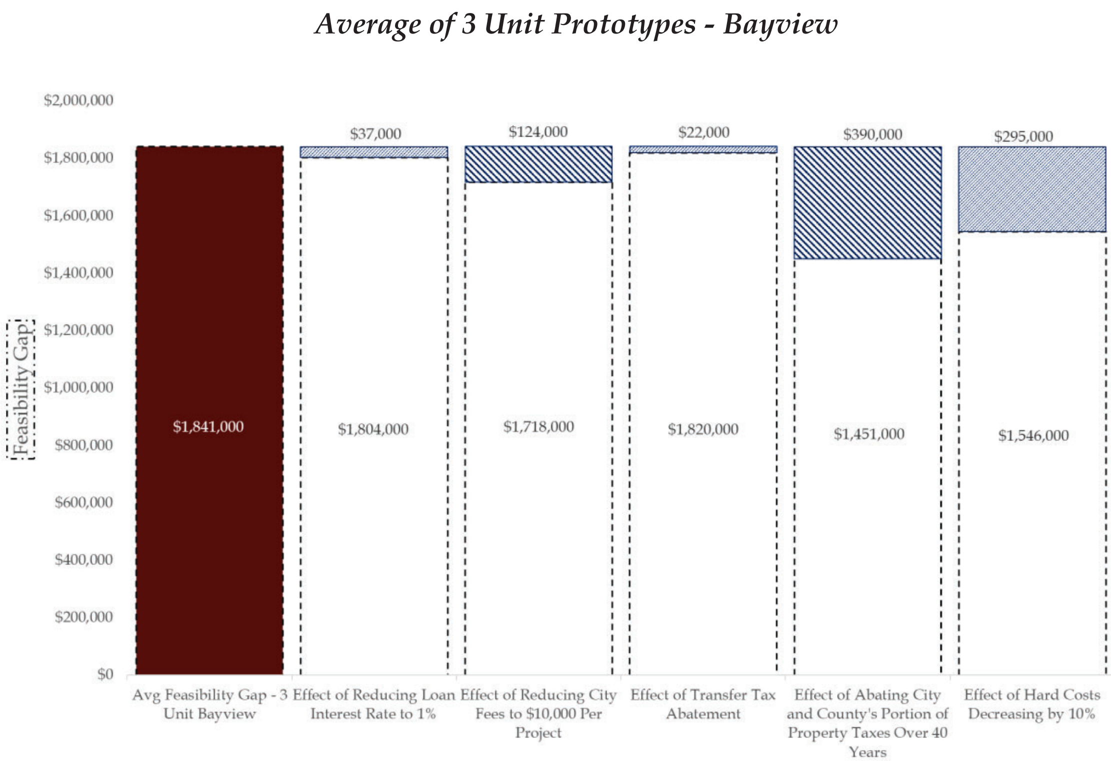
6. Changes in Feasibility Due to Changes in Hard and Soft Cost Inputs

The seven charts comprising Chart I below show the effect on the average feasibility gap for both for-rent and for-sale prototypes combined of changing the assumptions for certain hard and soft cost inputs. The revised input assumptions include:

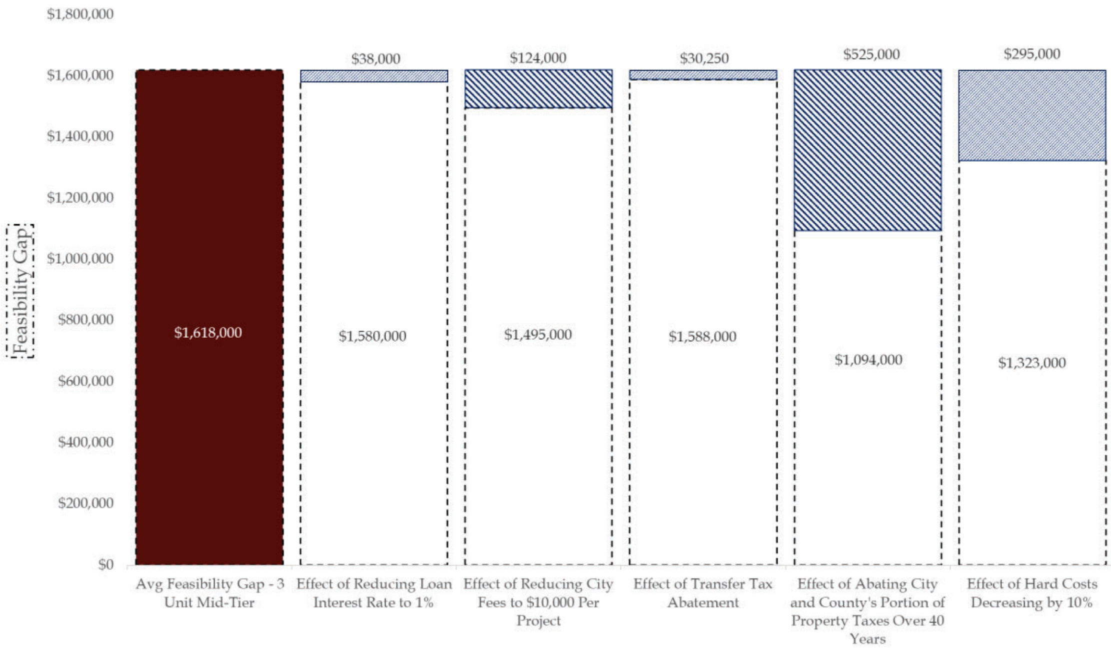
- Construction loan interest rate is 1%
- All City fees for each scenario are reduced to a total of $10,000. This scenario was not a reduction of a specific City fee; it represents a theoretical cap on total City fees.
- Transfer taxes are abated for initial sale of the property units
- City and County's portion of property taxes are abated for 40 years.
- Project hard costs are reduced by 10%

These feasibility gap sensitivity scenarios are prepared for illustrative purposes only at the request of the City. Century | Urban is not projecting that any of these scenarios is or is not likely to occur or recommending that any of these scenarios should or should not be implemented. These sensitivities have been prepared to evaluate the potential magnitude of their effect on the projected average feasibility gap for each prototype. The effect of each of these assumption changes is shown in the blue hatched areas of each bar with the remaining feasibility gap shown in the white area of each bar. For ease of review, all numerical amounts are rounded to the nearest $1,000.

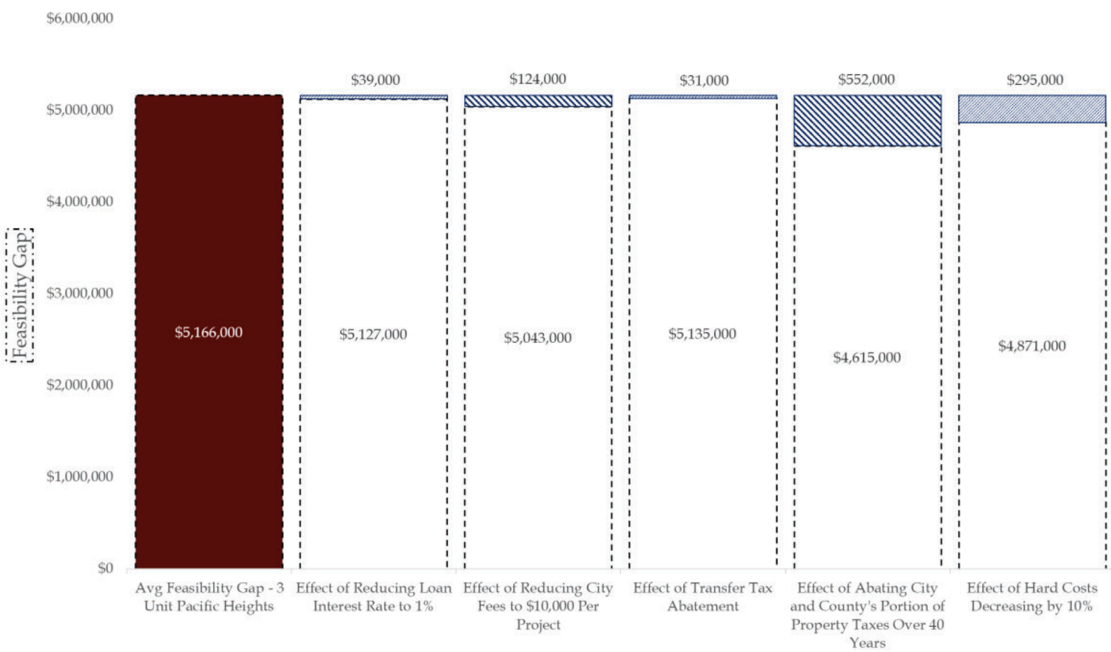
Chart I: Change in Feasibility Gap Due to Changes in Hard and Soft Cost Inputs



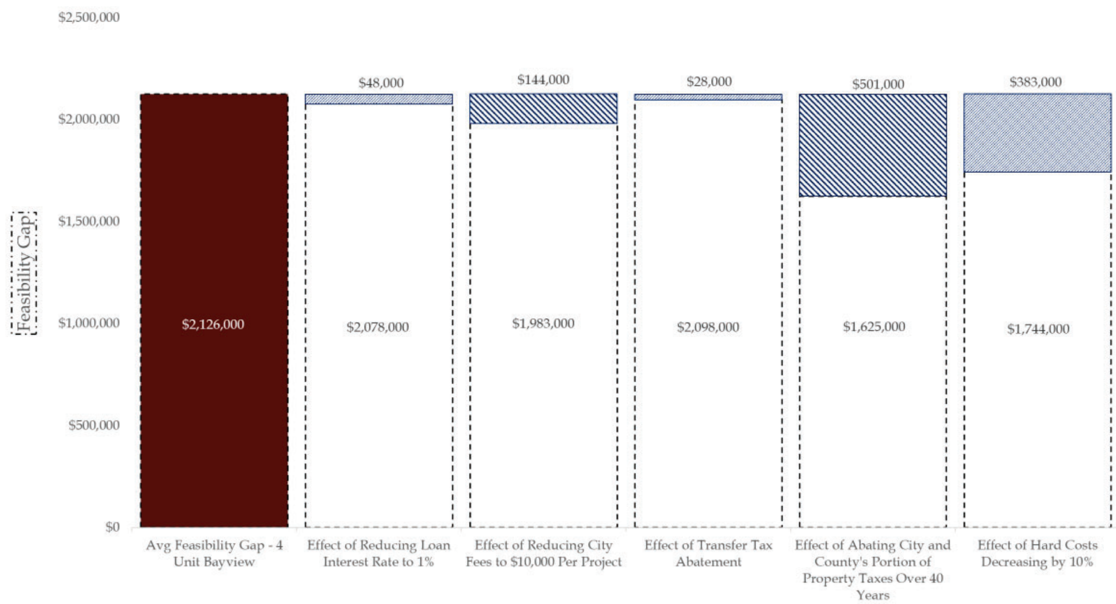
Average of 3 Unit Prototypes – Mid-Tier



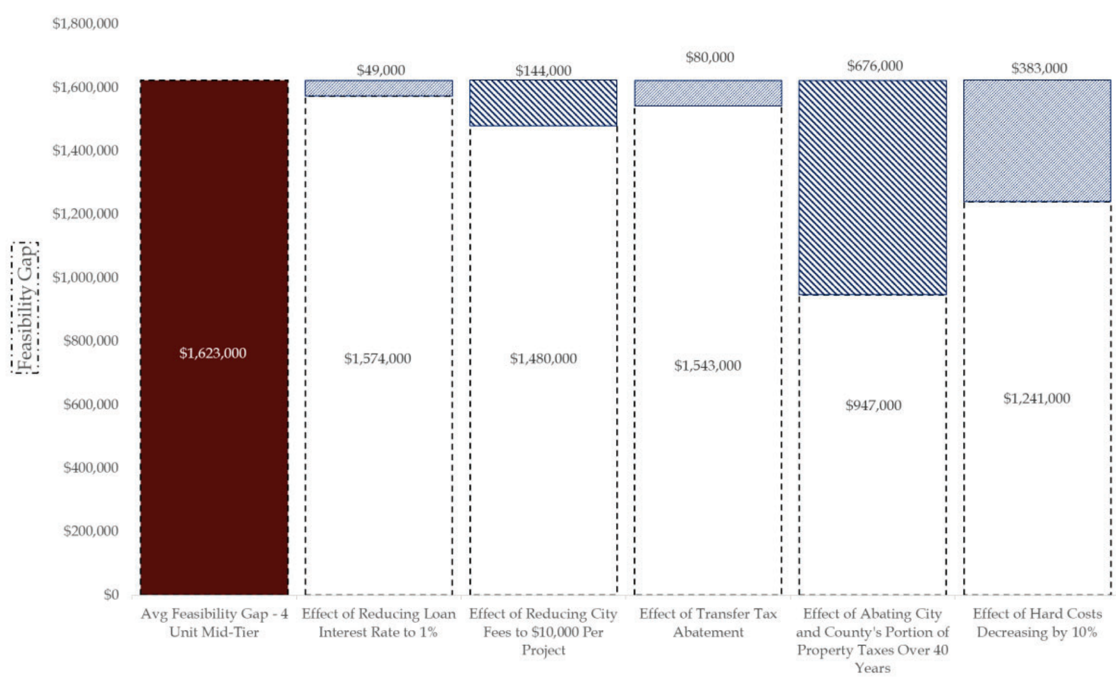
Average of 3 Unit Prototypes – Pacific Heights



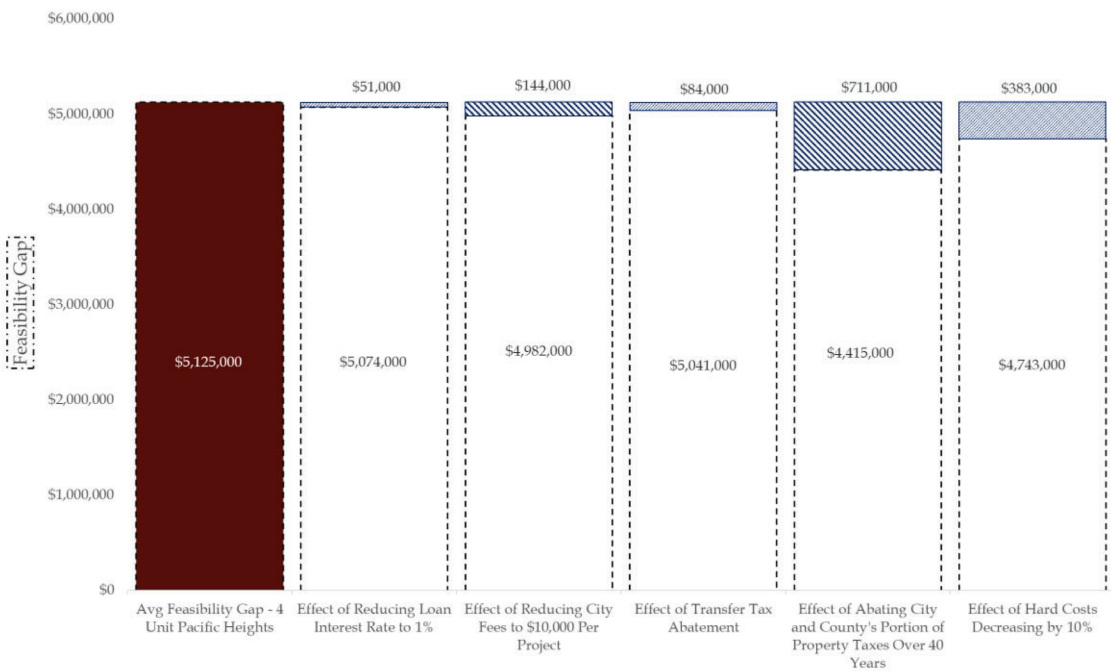
Average of 4 Unit Prototypes – Bayview



Average of 4 Unit Prototypes – Mid-Tier



Average of 4 Unit Prototypes – Pacific Heights



SB9 Analysis

Due to the number of scenarios and submarkets, the effects of changing hard and soft cost inputs on the SB9 scenarios are shown in dollar terms, rounded to the nearest thousand, in the chart below.

Scenario	*1*	*2*	*3*	*4*	*5*	*6*
Change Interest Costs to 1%	$40,000	$2,000	$6,000	$8,000	$13,000	$15,000
Reduce City Fees to $10,000	$32,000	$4,000	$6,000	$14,000	$16,000	$24,000
Transfer Tax Abatements						
Average - For Sale	$77,000	$14,000	$15,000	$17,000	$20,000	$23,000
Average For Rent		$16,000	$18,000	$20,000	$23,000	$26,000
Property Tax Abatements - Rental						
Pacific Heights	$39,000	$86,000	$124,000	$172,000	$210,000	
Richmond	$35,000	$58,000	$93,000	$116,000	$151,000	
Bayview	$27,000	$56,000	$83,000	$112,000	$139,000	
Change in Hard Costs by 10%	$323,000	$16,000	$50,000	$65,000	$98,000	$113,000

EXHIBIT E

[Planning Code – Single, Two and Three-Family Home Bonus Program]

Ordinance amending the Planning Code to create a density bonus program in RH-1 (Residential, House, One-Family), RH-2 (Residential, House, Two-Family), and RH-3 (Residential, House, Three-Family) zoning districts; affirming the Planning Department's determination under the California Environmental Quality Act; and making findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1, and findings of public necessity, convenience, and welfare under Planning Code, Section 302.

NOTE: **Unchanged Code text and uncodified text** are in plain Arial font.
Additions to Codes are in *single-underline italics Times New Roman font*.
Deletions to Codes are in ~~*strikethrough italics Times New Roman font*~~.
Board amendment additions are in double-underlined Arial font.
Board amendment deletions are in ~~strikethrough Arial font~~.
Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.

Be it ordained by the People of the City and County of San Francisco:

Section 1. Environmental and Land Use Findings.

(a) The Planning Department has determined that the actions contemplated in this ordinance do not constitute a project for purposes of the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq.), under Government Code section 65913.5. The Board affirms this determination.

(b) ~~On ________, the Planning Commission, in Resolution No. ________, adopted findings that the~~ The Board of Supervisors finds that the actions contemplated in this ordinance are consistent, on balance, with the City's General Plan and eight priority policies of Planning Code Section 101.1 for the following reasons. ~~The Board adopts these findings as~~

~~its own. A copy of said Resolution is on file with the Clerk of the Board of Supervisors in File No.________, and is incorporated herein by reference.~~ The ordinance is consistent with Housing Element Objective 1, Policy 1.6, Objective 4, Policy 4.6, and Objective 5, Policies 5.2 and 5.4, because the ordinance will allow areas of the City that have been restricted to single-family zoning for decades to add modest density to their neighborhoods, thereby providing a larger range of housing choices for current and future residents. The range of housing units in size, type, and affordability will assist current residents with being able to stay within their existing community, even if their housing needs change. This ordinance will also open opportunities for new residents to move into neighborhoods that are currently unavailable to them due to the lack of housing options for those who cannot realistically afford to buy or rent a single-family home in San Francisco. The ordinance is also consistent with Objective 10, Policy 10.2, because it will promote modest density increases across RH districts in the City through the addition of residential units and ADU's. The proposed ordinance additionally ensures that such modest density increases are approved quickly and administratively, which will aid in reaching its housing goals. The Board further finds that the ordinance is consistent with Planning Code section 101.1, in that it would not have a negative effect on neighborhood serving retail uses and will not have a negative effect on opportunities for resident employment in and ownership of neighborhood serving retail; would not have a negative effect on housing or neighborhood character because any increase in housing would be modest and in keeping with neighborhood character and the majority of the Residential Design Guidelines; would not have an adverse effect on the City's supply of affordable housing, and would increase the supply of affordable housing either through on-site units or by payment of an affordable housing fee; would not result in commuter traffic impeding MUNI transit or result in overburdened streets or neighborhood parking; would not cause displacement of the City's industrial or service sectors as the ordinance would only be applicable in residential zones;

would not have an adverse effect on the City's preparedness against injury and loss of life in an earthquake; would protect landmarks and historic buildings by requiring such buildings to continue to need conditional use authorization to take advantage of the program; and would not impact parks and open space or their access to sunlight and vistas.

(c) Pursuant to Planning Code Section 302, the Board of Supervisors find that this ordinance will serve the public necessity, convenience, and welfare for the same reasons as set forth above, and for the reasons set forth in Section 2 of this ordinance. ~~reasons set forth in Planning Commission Resolution No. ________, and incorporates such reasons by this reference thereto. A copy of said resolution is on file with the Clerk of the Board of Supervisors in File No. ________.~~

Section 2. Additional Findings.

(a) San Francisco is experiencing a severe housing shortage. The shortage of affordable housing has forced lower-income and middle-class families out of the City. There is a need to make it easier to build affordable and middle-income housing to keep our city diverse, and provide homes for lower- and middle-income workers, including nurses, firefighters, teachers, small business owners, retail and non-profit workers, and Muni drivers. In the midst of this severe housing shortage and affordability crisis, San Francisco must immediately remove barriers to building housing for low- and middle-income residents and working families.

(b) Teachers and other employees of the San Francisco Unified School District as well as employees of the City and County of San Francisco suffer from the City's severe housing shortage combined with high housing costs and the escalating cost of living. Yet when it comes to providing quality public service for our residents, it is far preferable for employees to live in the City where they work.

(c) Many of our service sector employers, including homeless service providers, mental health providers, child care facilities, restaurants, retail stores, and other small business operators cannot hire sufficient employees to keep their businesses fully operational because these employees cannot afford to live in San Francisco. This contributes to storefront vacancies, restaurant closures, and the inability to provide services to the most vulnerable communities in the City.

(d) Affordable housing is an especially paramount concern in San Francisco. San Francisco has one of the highest housing costs in the nation, but our economy and culture rely on a diverse workforce at all income levels. It is the policy of the City to enable these workers to afford housing in San Francisco and ensure that they pay a reasonably proportionate share of their incomes to live in adequate housing and to not have to commute ever-increasing distances to their jobs.

(e) By creating additional density and allowing additional units by right with an affordable component, this ordinance will result in thousands of additional units for working families who need to be housed. Adding affordability to the increased density preserves San Francisco's rich diversity while helping to solve the City's housing shortage.

(f) This Board declares that this ordinance is adopted pursuant to Government Code Section 65913.5, because it zones all RH-1 (D), RH-1, RH-1 (S), RH-2, and RH-3 parcels (as shown on the Zoning Maps ZN 01 through ZN 14) within the City for up to 10 units of residential density at the heights currently specified in the City's Zoning Maps (Height Maps HT 01 through HT 14), and all parcels affected by this ordinance are considered urban infill sites under California Government Code Section 65913.5(e)(3).

(g) By creating additional density in high opportunity areas and ensuring that units will be affordable to lower- and middle-class households by requiring on-site affordable units or by payment of an inclusionary fee, this Board finds that this ordinance is consistent with San

Francisco's obligation to affirmatively further fair housing pursuant to California Government Code Section 8899.50.

Section 3. The Planning Code is hereby amended by adding Sections 206.10 and 315.2, to read as follows:

SEC. 206.10. AFFORDABLE HOUSING INCENTIVE PROGRAM.

(a) ***Purpose.*** *The propose of the Affordable Housing Incentive Program is to facilitate the construction of housing projects with up to four units*, or up to six units on Corner Lots, *in single, two, and three-family home districts if at least one of the units is affordable to moderate-income families* or by payment of an Inclusionary Housing Fee.

(b) ***Definitions.*** *The definitions in Section 102 and the definitions in Section 401 for "Area Median Income" or "AMI," "Housing Project," and "Life of the Project," shall generally apply to this Section 206.10.*

(c) ***Applicability.*** *An Affordable Housing Incentive Program project shall be a housing project that:*

(1) is located in an RH-1-(D), RH-1, RH-1(S), *RH-2, or RH-3 district;*

(2) is located within one mile of a major transit stop, which shall include a BART Station, Caltrain Station, or MUNI Rapid Network or Light Rail stop;

(3) is located on a lot no smaller than 2500 square feet;

(4) includes at least three dwelling units, including the additional units allowed under this Section 206.10;

(5) is not seeking and receiving a density or development bonus under the provisions of California Government Code Sections 65915 et seq. or any other State or local program that allows additional density or development bonuses;

(6) if the project requires the demolition, removal, or conversion of residential units, consists of at least as many residential units as will be demolished, removed, or converted, and replaces any demolished, removed, or converted protected units, as required by California Government Code Section 66300(d)(2); and

(7) consists of new construction or additions to existing structures.~~; and~~

~~(8) includes only Dwelling Units.~~

*(d) **Requirements.** An Affordable Housing Incentive Program project shall be a housing project that:*

(1) includes at least one unit affordable to households with incomes up to 110% of Area Median Income if Rental Units, or 140% of Area Median Income if Owned Units. The restricted affordable unit or units shall be restricted for the Life of the Project and shall comply with all of the requirements of the Procedures Manual authorized in Section 415, except as otherwise provided herein. In the alternative, the Affordable Housing Incentive Program project may pay an Affordable Housing Fee equivalent to the fee per square foot multiplied by the average size of all units in the project, but no greater than 740 square feet. Notwithstanding any other provision of this Code or the Building Code regarding the timing of fee payments, such fee shall be due and payable to the Development Fee Collection Unit and the Department of Building Inspection at the time of, and in no event later than, issuance of a first construction document as defined in Section 410 of this Code and Section 107A 13.1 of the Building Code.

(2) includes at least ~~2~~ two *units containing at least one bedroom; and*

(3) includes units that are no smaller than the minimum unit sizes set forth by the California Tax Credit Allocation Committee as of May 16, 2017.

*(e) **Development Bonuses.** Notwithstanding any other provision of this Code, Affordable Housing Incentive Program projects shall be entitled to the following development bonuses:*

(1) ***Density.*** *An Affordable Housing Incentive Program project may include up to four units* on lots that are Interior Lots, or six units on lots that are Corner Lots. In addition, an Affordable Housing Incentive Program project may include one accessory dwelling unit per development. Except as provided in this subsection (e)(1), no other exceptions to dwelling unit density shall be allowed.

(2) ***Height.*** *Notwithstanding any other provision of this Code, including but not limited to Section 261 and 253, the height of an Affordable Housing Incentive Program project shall be the height authorized by the Height Map of the Zoning Map.*

(3) ***Zoning modifications.*** *Affordable Housing Incentive Program projects shall be entitled to the following zoning modifications:*

(A) ***Rear Yard.*** *The required rear yard per Section 134 may be reduced to no less than 25% of the lot depth, or 15 feet, whichever is greater. Corner properties may provide 25% of the lot area at the interior corner of the property to meet the minimum rear yard requirement, provided that each horizontal dimension of the open area is a minimum of 15 feet and the open area is wholly or partially contiguous to the existing midblock open space, if any, formed by the rear yards of adjacent properties.*

(B) ***Dwelling Unit Exposure.*** *The dwelling unit exposure requirements of Section 140(a)(2) may be satisfied through qualifying windows facing an unobstructed open area that is no less than 25 feet in every horizontal dimension, and such open area is not required to expand in every horizontal dimension at each subsequent floor.*

(C) ***Open Space.*** *The Open Space requirements for RM-1 districts set forth in Section 135 shall control.*

(4) ***Priority Processing.*** *Affordable Housing Incentive Program projects shall be reviewed in coordination with relevant priority processing and shall be approved, denied, or approved subject to conditions by the Planning Director under Section 315.2 within 180 days of submittal of a*

complete project application, unless the Environmental Review Officer determines that an environmental impact report is required for the project under Administrative Code Section 31.09.

*(f) **Regulatory Agreements.** Recipients of development bonuses under the Affordable Housing Incentive Program projects* that have elected to provide an affordable unit or units on-site under subsection (d)(1) *shall enter into a Regulatory Agreement with the City.*

(1) The terms of the Regulatory Agreement shall include:

(A) a statement that the restricted affordable units in an Affordable Housing Incentive Program project are not subject to the Costa-Hawkins Rental Housing Act (California Civil Code Sections 1954.50 et seq.) because, under Section 1954.52(b), the owner has entered into an agreement with the City in consideration for a complete or partial waiver of the density limits and zoning modifications of this Code or other direct financial contribution or other form of assistance specified in California Government Code Sections 65915 et seq. ("Agreement");

(B) a description of the complete or partial waiver of Code requirements granted by this Section 206.10 and/or the Planning Director, or other direct financial contribution or form of assistance provided to the property owner; and

(C) a description of the remedies for breach of the Agreement and other provisions to ensure implementation and compliance with the Agreement.

(2) The property owner and the Planning Director (or the Director's designee), on behalf of the City, will execute the Agreement, which shall be reviewed and approved by the City Attorney's Office. The Agreement shall be executed prior to the City's issuance of the First Construction Document for the project, as defined in Section 107A.13.1 of the San Francisco Building Code.

(3) Following execution of the Agreement by all parties and approval by the City Attorney, the Agreement or a memorandum thereof shall be recorded against the property and shall be binding on all future owners and successors in interest.

*(g) **Prohibition of Short-Term Rentals.** Units in an Affordable Housing Incentive Program project shall not be used for Short-Term Residential Rentals under Chapter 41A of the Administrative Code, which restriction shall be recorded as a Notice of Special Restriction on the subject lot.*

*(h) **Review and Approval.** Notwithstanding any other provision of this Code, building permit applications to construct an Affordable Housing Incentive Program project pursuant to this Section 206.10 shall not be subject to* (1) *the notification or review requirements of Section 311*; or (2) the conditional use requirements of Section 317 unless such project requires the demolition, removal, or conversion of a residential unit in a designated state or national landmark, or designated City landmark, or a contributory building in a designated historic district under Article 10 or this Code, or a Significant Building designated Category I or II as provided in Article 11 of this Code. *Projects under this Section 206.10 shall be approved under the provisions set forth in Section 315.2. As long as the Planning Commission has delegated its authority to the Planning Department to review applications for an Affordable Housing Incentive Program project, no requests for discretionary review shall be accepted by the Planning Department or heard by the Planning Commission for Affordable Housing Incentive Program projects.*

SEC. 315.2. AFFORDABLE HOUSING INCENTIVE PROGRAM REVIEW AND AUTHORIZATION.

*(a) **Purpose.** The purpose of this Section 315.2 is to ensure that all Affordable Housing Incentive Program projects under Planning Code Section 206.10 are reviewed in coordination with Priority Processing.*

*(b) **Applicability.** This Section 315.2 applies to all Affordable Housing Incentive Program projects that meet the requirements described in Section 206.10.*

*(c) **Design Review.** The Planning Department shall review and evaluate all physical aspects of an Affordable Housing Incentive Program project as follows:*

(1) Affordable Housing Incentive Program projects shall be consistent with the Residential Design Guidelines, except for the provisions under Section IV. Building Scale and Form that address "Building Scale and Form" and "Building Scale at the Mid-Block Open Space," and any other applicable design guidelines.

(2) As set forth in subsection (d), the Planning Director may also grant minor exceptions to the provisions of this Code, or require minor modifications to a project to reduce the impacts of an Affordable Housing Incentive Program project on surrounding buildings. However, such exceptions or modifications may only be granted to allow building mass to appropriately shift to respond to surrounding context, and only when such modifications do not substantially reduce or increase the overall building envelope permitted by the Program under Section 206.10. All modifications and exceptions shall be consistent with the Residential Design Guidelines as set forth in Section 315.2(c)(1).

(3) The Planning Director may require other design-related modifications or conditions in order to achieve the objectives and policies of the Program. This review shall be limited to design issues including the following;

(A) whether the bulk and massing of the building is consistent with the Residential Design Guidelines, except for the provisions under Section IV. Building Scale and Form that address "Building Scale and Form" and "Building Scale at the Mid-Block Open Space;" and

(B) whether building design elements including, but not limited to, architectural treatments, facade design, and building materials, are consistent with the Residential Design Guidelines, except for the provisions under Section IV. Building Scale and Form that address "Building Scale and Form" and "Building Scale at the Mid-Block Open Space," and any other applicable design guidelines.

*(d) **Exceptions.** As a component of the review process under this Section 315.2, the Planning Director may grant minor exceptions (no greater than 15%) to the provisions of this Code as provided*

below, in addition to the development bonuses granted to the project in Section 206.10(e). Such exceptions, however, may only be granted to allow building mass to appropriately shift to respond to surrounding context, and only when the Planning Director finds that such modifications do not substantially reduce or increase the overall building envelope permitted by the Program under Section 206.10, and the project, with the modifications and exceptions, is consistent with the Residential Design Guidelines. These exceptions may include:

(1) Exception from residential usable open space requirements of Section 135.

(2) Exception for rear yards, pursuant to the requirements of Section 134.

(3) Exception from dwelling unit exposure requirements of Section 140.

*(e) **Decision and Imposition of Conditions.** The Planning Director may authorize, disapprove, or approve subject to conditions, the project and any associated requests for exceptions and shall make appropriate findings. The Director may impose additional conditions, requirements, modifications, and limitations on a proposed project in order to achieve the objectives, policies, and intent of the General Plan or of this Code.*

*(f) **Discretionary Review.** As long as the Planning Commission has delegated its authority to the Planning Department to review applications for an Affordable Housing Incentive Program project, the Planning Commission shall not hold a public hearing for discretionary review of an Affordable Housing Incentive Program project that is subject to this Section 315.2.*

*(g) **Appeals.** The Planning Director's administrative determination regarding an Affordable Housing Incentive Program project pursuant to this Section 315.2 shall be considered part of a related building permit. Any appeal of such determination shall be made through the associated building permit.*

Section 4. The Planning Code is hereby amended by revising Section 209.1 to read as follows:

SEC. 209.1. RH (RESIDENTIAL, HOUSE) DISTRICTS.

* * * *

TABLE 209.1

ZONING CONTROL TABLE FOR RH DISTRICTS

Zoning Category	**§ References**	**RH-1(D)**	**RH-1**	**RH-1(S)**	**RH-2**	**RH-3**
BUILDING STANDARDS						
Massing and Setbacks						
Height and Bulk Limits	§§ 102, 105, 106, *206.10,* 250-252, 253, 260, 261, 261.1, 270, 271, See also Height and Bulk District Maps.	No portion of a Dwelling may be taller than 35 feet*,* *except as allowed by § 206.10*. Structures with uses other than Dwellings may be constructed to the prescribed height limit, which is generally 40 feet. Per § 261, the height limit may be decreased or increased based on the slope of the lot.			No portion of a Dwelling may be taller than 40 feet. Structures with uses other than Dwellings may be constructed to the prescribed height limit. Per § 261 the height limit may be	Varies, but generally 40 feet. Height sculpting on Alleys per § 261.1.

			decreased based on the slope of the lot.	
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Section 5. Effective Date. This ordinance shall become effective 30 days after enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board of Supervisors overrides the Mayor's veto of the ordinance.

Section 6. Scope of Ordinance. In enacting this ordinance, the Board of Supervisors intends to amend only those words, phrases, paragraphs, subsections, sections, articles, numbers, punctuation marks, charts, diagrams, or any other constituent parts of the Municipal Code that are explicitly shown in this ordinance as additions, deletions, Board amendment additions, and Board amendment deletions in accordance with the "Note" that appears under the official title of the ordinance.

APPROVED AS TO FORM:
DAVID CHIU, City Attorney

By: /s/ Audrey Pearson
AUDREY PEARSON
Deputy City Attorney

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