



HOPE SF Development Agreements for Sunnydale and Potrero: Economic Impact Report

Office of Economic Analysis
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Introduction

- HOPE SF is a City-sponsored anti-poverty initiative that seeks to transform low-income public housing projects into more complete, mixed-income neighborhoods with new housing. The public housing properties, which are managed by the San Francisco Housing Authority, are aging and, in some cases, have severely deteriorated.
- The redeveloped neighborhoods will include new replacement affordable housing units for current residents, as well as additional new market-rate and affordable housing.
- The proposed legislation concerns the approval of two development agreements in the HOPE SF program, which would redevelop the Sunnydale, and Potrero Terrace and Potrero Annex, properties. A development agreement is a contract between the City and a property developer that defines the terms under which the developer has the right to develop the site.
- Because of the scale of the two redevelopment projects, the Office of Economic Analysis (OEA) has determined that the development agreements would have a material economic impact on the San Francisco economy.

Details of the Development Agreements: Potrero Terrace and Annex

- The Housing Authority's property at Potrero Terrace, on the south side of Potrero Hill, was constructed in 1942. Potrero Annex, on the east side of the hill, was constructed in 1955. The two properties now contain 619 public housing units between them, on 38 acres of land.
- Under the development agreement, the master development (Bridge Housing) would be responsible for replacing those 619 units with new units. The replacement units will be offered to current residents of the two properties in good standing.
- The developer is also responsible for providing a minimum of 155 additional new housing units that would be affordable to households earning between 40% and 60% of area median income (AMI). In 2016, this income range was between \$43,100 and \$64,600, for a household of 4.
- The development agreement permits the construction of an additional 800 units of market rate housing.
- It further requires the developer to build 32,000 square feet of space for community uses, including retailing, to rebuild the road and utility network in the area, provide 3.5 acres of community open space, and 1,055 automobile parking and 839 bike parking spaces.

Details of the Development Agreements: Sunnydale

- The Sunnydale Housing development was constructed in 1940 and contains 775 public housing units on 50 acres.
- The Sunnydale development agreement calls for the demolition and reconstruction of those units, which will be offered to existing residents in good standing. As with Potrero, the developer is required to build 125% of existing units as affordable, at a minimum. At Sunnydale, this means a minimum of 969 new and replacement affordable units.
- The development agreement also provides for the development of approximately 600 additional market-rate units.
- In addition, the developer is required to provide 60,000 square feet of community-serving space, build 3.6 acres of public open space, 1,962 automobile parking spaces, and 1,808 bike parking spaces.

Economic Impact Factors

- According to the project's website, hope-sf.org, the overarching goals of the project include: building superior housing, enhancing the lives of existing residents, and serving as a catalyst for improving the surrounding neighborhood.
- These impacts on existing residents and the surrounding neighborhoods could well be the greatest benefits of the project, but they are very difficult to quantify, and are not considered in this report.
- Instead, this report focuses on the city-wide impact of construction spending, and on expanding the supply of both affordable and market-rate housing in San Francisco.
- In terms of housing supply, more market-rate housing increases choices for households searching for housing, reducing competition among renters and buyers and lowering prices.
- Additionally, past OEA research has also determined that new affordable housing units are roughly twice as effective as new market-rate units at improving affordability for low-income San Franciscans, because they combine a direct subsidy with the indirect benefit of reducing competition at the low-end of the private housing market.

Economic Impact Assessment: Construction Cost and Housing Price Impacts

- The Budget & Legislative Analyst, based on data from the Mayor's Office of Housing and Community Development, has estimated the cost of the affordable housing and infrastructure at the two projects will be \$1.8 billion over 25 years. The market-rate construction will generate an estimated \$475 million in additional spending.
- San Francisco households with an income between 40% and 60% of the area median, and who moved during the 2010-14 period, spent an average of 48% of their income on housing, according to data from the Census Bureau's American Community Survey.
- Households occupying the replacement or new affordable units will pay a maximum of 30% of their income on housing. This policy will result in a benefit of at least \$12 million a year to the residents of the 1,743 new and replacement affordable units, compared to what they would pay in the private housing market.
- In addition, the net creation of 349 additional affordable housing units would provide indirect price relief to all of San Francisco's households in the 40-60% AMI category, about 4,500 of whom change residences each year. In aggregate, they can expect to pay \$11 million less for housing in the private market, annually, because of the new units.
- Finally, the additional 1,400 market-rate units will provide an additional form of price relief to all San Francisco households in the market, equal to approximately \$44 million per year in reduced housing costs.

REMI Model Simulation Results

- To estimate the citywide economic impact of the two development agreements, their projected construction spending and associated housing price reductions were modeled in the OEA's REMI model of the San Francisco economy.
- The model tracks the indirect and induced effects (the “multiplier effects”) associated with the direct construction spending, the higher consumer incomes associated with more affordable housing, and impacts on the labor market of less expensive housing.
- Over a 25-year forecast period (reflecting the planned 25-year construction process), the two development agreements will generate an average of 1,166 jobs in San Francisco, mainly concentrated in the construction, health care, social assistance, and retail trade industries. Overall, the city's economy will be \$200 million larger as a result of the development agreement.

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