

# MEMORANDUM

**To:** Mayor London N. Breed  
Board of Supervisors

**From:** Joshua Switzky, Planning Department  
Dan Adams, Mayor's Office of Housing and Community Development  
Leigh Lutenski and Theodore Conrad, Office of Economic and Workforce Development

**CC:** Planning Commission  
Controller Ben Rosenfield  
Kate Stacy and Austin Yang, Deputy City Attorneys

**Date:** June 7, 2019

**Subject:** 2019 Jobs Housing Nexus Analysis

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This memorandum summarizes the findings of two documents related to the Jobs Housing Linkage Program: 1) the update to the *Jobs Housing Nexus Analysis*, which establishes a *maximum justifiable* impact that non-residential development may have on the demand for affordable housing in San Francisco; and 2) a financial feasibility study that analyzes office development and recommends Jobs Housing Linkage Fee levels at which office development is feasible in our current real estate market.

Consistent with the legal requirements of the California Mitigation Fee Act, Government Code Sections 66000 et seq., the City prepares nexus studies that support the imposition of development fees, and updates such studies periodically. As set forth in Planning Code Section 413 et seq., the City's Jobs Housing Linkage Program requires certain non-residential development projects to offset the demand for new affordable housing created by those projects. The attached *Jobs Housing Nexus Analysis* ("Nexus Analysis") for San Francisco has been prepared by Keyser Marston Associates, Inc.,<sup>1</sup> and demonstrates that the construction of new non-residential development results in the need for affordable housing. This study is an update to the last Jobs Housing Nexus Analysis, completed in 1997.

This memorandum is being sent to inform you about the update to the Nexus Analysis, and to let you know that this document will be added to Board File #100917. A corresponding Financial Feasibility Study prepared by Seifel Consulting and Economic and Planning Systems is also attached and described within this memorandum. There is no action required or recommended at this time.

## **Summary of Findings of the Jobs Housing Nexus Analysis**

The Nexus Analysis demonstrates and quantifies the demand for affordable housing for households earning up to 120% of area median income created by construction of new or expanded non-residential buildings adding more than 25,000 square feet of development.

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<sup>1</sup> Keyser Marston is nationally recognized as an expert in jobs-housing linkage and residential nexus analyses. They prepared San Francisco's prior jobs housing nexus analysis in 1997, the City's residential nexus analysis in 2007 and again in 2016. They also have prepared nexus studies for most of the California cities with affordable housing requirements, including San Diego, Sacramento, San Mateo, Cupertino, Fremont, Hayward, Napa County, Mountain View, Emeryville, Daly City, Newark, Fremont, Rancho Cordova, and San Jose.

The Nexus Analysis examines demand created by new workplace development currently subject to the City’s Jobs Housing Linkage Fee—Office, Research and Development, Retail, Entertainment and Hotel uses—as well as those created by Production Distribution & Repair (“PDR”), Medical and Institutional uses<sup>2</sup>. To arrive at this demand, it assesses the number of workers associated with new non-residential development, assumes these workers all require new housing in San Francisco, and then uses salary and income data to derive the portion of those workers that are in households earning up to 120% of area median income.

The Nexus Analysis reaffirms and updates the potential demand for affordable housing that varies by each type of non-residential use, depending on the worker density of each use and the salary ranges for each use type. That range of demand is illustrated on Table I-1 of the Nexus Analysis, and in the table below:

<b>Affordable Unit Demand Factors</b>	
Number of Affordable Units Needed per 1,000 Square Feet of Gross Floor Area	
Office	0.80892
R&D	0.44599
Retail	1.02229
Entertainment	0.34275
Hotel	0.51642
PDR	0.53153
Medical	0.68647
Institutional	0.33176

These figures express the *maximum* number of affordable units per 1,000 square feet of gross floor area of each use that can be legally mitigated by Jobs Housing Linkage Fees. These figures are represented in terms of the demand for new affordable units rather than specific dollar amounts. This is because the fees are a factor of demand multiplied by the estimated average net subsidy cost of producing each unit of affordable housing (i.e. the “affordability gap”), which is subject to change based on construction costs, commonly available financing, and other factors. The affordability gaps are published and periodically updated by the Mayor’s Office of Housing & Community Development as required under Planning Code Section 415.5.

Please note these figures represent the *maximum justifiable* impact that could be addressed legally under the Jobs Housing Linkage Program. The maximum justifiable fee rates derived from this analysis do *not* represent recommended or feasible fee levels.

We highlight two issues that may help provide additional context for understanding the Nexus Analysis. First, the Nexus Analysis applies conservative assumptions, such as that all workers in the new developments reside in San Francisco and do not commute from other cities. The Nexus Analysis also assesses only the impact created by new non-residential development on affordable housing demand. It

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<sup>2</sup> PDR, Medical and Institutional uses are currently not generally subject to jobs Housing Linkage Fees but are included for consistency with the City’s prior nexus study and to provide flexibility in adjusting program requirements in the future.

does not consider the additional resources, such as general obligation bonds, available to help meet this demand. These assumptions are intended and designed to determine the broadest possible legal authority for setting the fee standards. Second, the Nexus Analysis does not consider whether the maximum fee rates would make commercial development infeasible. This consideration is shown through a separate analysis, known as a financial feasibility study, discussed below.

### **Financial Feasibility Study for Office Use**

A financial feasibility study, which analyzes the financial dynamics of development based on expected typical development costs and revenues, is used to guide recommendations for actual fee rates as set by policy. Policymakers use financial feasibility studies to ensure that new policies and programs are economically sound, and to evaluate the economic and policy tradeoffs involved in setting or adjusting a fee. For example, such analysis should consider that, while the Jobs-Housing Linkage Fee applies citywide, development projects in different areas of the City are subject to varying levels of other fees and development requirements. In addition, most San Francisco development is subject to more than one impact fee, which has a cumulative effect on feasibility that must be taken into account. Thus, Section 410 of the City's Planning Code requires, among other things, a regular evaluation of the financial feasibility of projects and housing affordability as part of a comprehensive assessment of all impact fees in the City.

The attached feasibility study ("Feasibility Study") was performed by Seifel Consulting and Economic and Planning Systems to help guide policymakers in setting the Jobs Housing Linkage fee for new office development<sup>3</sup>. It studies six office development prototypes that represent the types of office development the City can expect to see over the next ten years. The Feasibility Study analyzes the financial dynamics of office development based on expected typical development costs and revenues for both current and "pipeline" conditions.

#### *Conclusion*

The study finds that for new projects being developed today, development costs are so high that revenues do not justify new office development, even at the existing fee level. The Feasibility Study includes a "pipeline scenario" that analyzes certain currently proposed office projects that may have secured advantageous financial terms, such as lower land costs. Under the "pipeline scenario," moderate increases to the fee may be supportable. However, the study shows that increasing the fee beyond a \$10 increase begins to hinder feasibility of even the prototypes studied in the "pipeline scenario."

Office development feasibility is an important policy objective because of the myriad public benefits contributed by office development, such as fees for affordable housing, public open space, and transit. If office development becomes infeasible within the Central Soma Plan Area, for example, then the City is at risk of not receiving the billions of dollars in public benefits required and expected by the plan, nor would the City receive the significant amount of projected annual citywide tax revenues associated with development in the Central Soma Plan Area. Moreover, high fees that limit the feasibility of developing new space will lead to an ever tightening market for office space, resulting in only top-paying companies being able to afford new office space in San Francisco, while smaller and less profitable companies will

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<sup>3</sup> Additional time and funding would be needed to conduct feasibility analyses of uses other than office. Limitations on existing funding and a desire to expedite analysis of office uses, which pay the vast majority of Jobs Housing Linkage fees in the city, limited the scope of this feasibility analysis to only office uses.

be forced to compete for a more limited amount of existing office space. This poses a risk of displacement from the City for smaller businesses, nonprofits, and other less profitable industries.

As noted above, there is no action you need to take with regard to this Nexus Analysis or Feasibility Study; they are simply being provided to you as background information. Please feel free to reach out to the staff referenced in the heading of this memo if you have any questions about these documents.