File No. 190548 Committee Item No. 6
Board Item No. 10

# COMMITTEE/BOARD OF SUPERVISORS

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**Committee:** Land Use and Transportation Committee **Date** October 21, 2019

**Board of Supervisors Meeting** **Date** November 5, 2019

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**Completed by:** Erica Major **Date** October 18, 2019
**Completed by:** Erica Major **Date** 10/24/2019

[Planning Code - Jobs Housing Linkage Fee and Inclusionary Housing]

**Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by ~~allowing~~ clarifying the indexing of the fee, adding options for complying with the fee, phasing increases to the fee~~requiring payment of the fee no later than at the time of first certificate of occupancy~~, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, requiring periodic evaluation of the nexus study and fee, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to 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 comply with the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq.). Said determination is on file with the Clerk of the Board of Supervisors in File No. 190548 and is incorporated herein by reference. The Board affirms this determination.

(b) On September 19, 2019, the Planning Commission, in Resolution No. 20522, adopted findings 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. 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. 190548, and is incorporated herein by reference.

(c) Pursuant to Planning Code Section 302, the Board finds that this Planning Code amendment will serve the public necessity, convenience, and welfare for the reasons set forth in Planning Commission Resolution No. 20522, and the Board incorporates such reasons herein by reference.

(d) The Jobs Housing Nexus Analysis, in Board File No. 190548 concluded that all new Office, Laboratory, Retail, Entertainment, Hotel, Production Distribution and Repair, Medical and Institutional land uses in San Francisco will generate an increased demand for affordable housing. The Nexus Study establishes a maximum level of affordable unit demand to be mitigated by the Jobs-Housing Linkage Fee Program for each of the eight building types. The Board finds that it is in the public interest to assess fees for smaller Office uses (up to 49,999 gross square feet) at a lower rate due to the feasibility and financing for such smaller Office uses.

Section 2. Article 4 of the Planning Code is hereby amended by revising Sections 249.78, 329, 409, 413.1, 413.4, 413.6, 413.7, 413.8, 413.9, 413.10, 413.11, ~~and~~ 415.5, and 424.4, and deleting Section 413.5, to read as follows:

**SEC. 249.78. CENTRAL SOMA SPECIAL USE DISTRICT.**

(e) **Community Development Controls.**

* * * *

(2) **Land Dedication.**

(A) Residential projects in this SUD may opt to fulfill the Inclusionary Housing requirement of Section 415 through the Land Dedication alternative contained in Section 419.6.

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(B) Non-Residential projects in this Special Use District may opt to fulfill their Jobs-Housing Linkage Fee requirement of Section 413 through the Land Dedication alternative contained in Section 413.6~~7~~.

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**SEC. 329. LARGE PROJECT AUTHORIZATION IN EASTERN NEIGHBORHOODS MIXED USE DISTRICTS.**

* * * *

(e) **Exceptions for Key Sites in Central SoMa.**

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(3) **Controls.** Pursuant to this Section 329(e) and the Key Site Guidelines adopted as part of the Central SoMa Area Plan, the Planning Commission may grant exceptions to the provisions of this Code as set forth in subsection (d) above and may also grant the exceptions listed below for projects that provide qualified amenities in excess of what is required by the Code.

(A) **Qualified Amenities.** Qualified additional amenities that may be provided by these Key Sites include: affordable housing beyond what is required under Section 415 *et seq.*; land dedication pursuant to Section 413.6~~7~~ by non-residential projects for construction of affordable housing in partial or full satisfaction of the Jobs-Housing linkage Fee, or in excess of that required to satisfy the Jobs-Housing linkage Fee, provided that if the land dedication is in partial satisfaction of that Fee, the balance of the Fee shall be paid with the land value calculated as set forth in Section 413.6~~7~~; land dedication pursuant to Section 413.6~~7~~ by residential projects for construction of affordable housing in partial or full satisfaction of the Alternatives to the Inclusionary Housing Fee, or in excess of that required to satisfy the Alternatives to the Inclusionary Housing Fee, pursuant to Section 419.5, to the extent permitted by state law, provided that if the land dedication is in partial satisfaction of that Fee, the balance of the Fee shall be paid with the land value calculated as set forth in Section 413.6~~7~~; PDR at a greater amount and/or lower rent than is otherwise required under Sections 202.8 or 249.78(c)(5); public parks, recreation centers, or plazas; and improved pedestrian networks.

**SEC. 409. CITYWIDE DEVELOPMENT FEE REPORTING REQUIREMENTS AND COST INFLATION FEE ADJUSTMENTS.**

(a) **Citywide Development Fee and Development Impact Requirements Report.** In coordination with the Development Fee Collection Unit at DBI and the Director of Planning, the Controller shall issue a report within 180 days after the end of each even-numbered fiscal year that provides information on all development fees established in the Planning Code collected during the prior two fiscal years organized by development fee account and all cumulative monies collected over the life of each development fee account, as well as all monies expended. The report shall include: (1) a description of the type of fee in each account or fund; (2) the beginning and ending balance of the accounts or funds including any bond funds held by an outside trustee; (3) the amount of fees collected and interest earned; (4) an identification of each public improvement on which fees or bond funds were expended and amount of each expenditure; (5) an identification of the approximate date by which the construction of public improvements will commence; (6) a description of any inter-fund transfer or loan and the public improvement on which the transferred funds will be expended; and (7) the amount of refunds made and any allocations of unexpended fees that are not refunded. The report shall also provide information on the number of projects that elected to satisfy development impact requirements through the provision of "in-kind" physical improvements, including on-site and off-site BMR units, instead of paying development fees. The report shall also include any annual reporting information otherwise required pursuant to the California Mitigation Fee Act, *California* Government Code *Sections* 66001 *et seq*. The report shall be presented by the Director of Planning to the Planning Commission and to the Land Use & ~~*Economic Development*~~ *Transportation* Committee of the Board of Supervisors. The ~~*R*~~*r*eport shall also contain information on the Controller's annual construction cost inflation adjustments to development fees described in subsection (b) below, as well as information on MOH*CD*'s separate adjustment of the ~~*Jobs-Housing Linkage and*~~ Inclusionary Affordable Housing ~~*f*~~*F*ee~~*s*~~ described in Section~~*s 413.6(b) and*~~ 415.5(b)(3).

(b) **Annual Development Fee Infrastructure Construction Cost Inflation Adjustments.** Prior to issuance of the Citywide Development Fee and Development Impact Requirements Report referenced in subsection (a) above, the Controller shall review the amount of each development fee established in the ~~*San Francisco*~~ Planning Code and, with the exception of the ~~*Jobs-Housing Linkage Fee in Section 413 et seq. and the*~~ Inclusionary Affordable Housing Fee in Section 415 *et seq*., shall adjust the dollar amount of any development fee on an annual basis every January 1 based solely on the Annual Infrastructure Construction Cost Inflation Estimate*. The*

*Office of the City Administrator's Capital Planning Group shall publish the Annual Infrastructure Construction Cost Inflation Estimate, as* ~~published by the Office of the City Administrator's Capital Planning Group and~~ approved by the City's Capital Planning Committee, no later than November 1 every year, without further action by the Board of Supervisors. The Annual Infrastructure Construction Cost Inflation Estimate shall be updated ~~by the Capital Planning Group on an annual basis and~~ no later *than* November 1 every year, ~~in consultation with the Capital Planning Committee,~~ in order to establish a reasonable estimate of construction cost inflation for the next calendar year for a mix of public infrastructure and facilities in San Francisco. The Capital Planning Group may rely on past construction cost inflation data, market trends, and a variety of national, state, and local commercial and institutional construction cost inflation indices in developing ~~their~~ *its* annual estimates for San Francisco. The Planning Department and the Development Fee Collection Unit at DBI shall provide notice of the Controller's development fee adjustments, including the Annual Infrastructure Construction Cost Inflation Estimate formula used to calculate the adjustment, and MOH*CD*'s separate adjustment of the ~~Jobs-Housing Linkage and~~ Inclusionary Affordable Housing Fee~~s~~ on the Planning Department and DBI website*s* and to any interested party who has requested such notice at least 30 days prior to the adjustment taking effect each January 1. The ~~Jobs-Housing Linkage Fee and the~~ Inclusionary Affordable Housing *fF*ee~~s~~ shall be adjusted under the procedures established in Section~~s 413.6(b) and~~ 415.5(b)(3).

**SEC. 413.1. FINDINGS.**

The Board hereby finds and declares as follows:

~~A.~~ *(a)* Large-scale entertainment, hotel, office, *laboratory*~~research and development~~, and retail developments in the City ~~and County of San Francisco~~ have attracted and continue to attract additional employees to the City, and there is a causal connection between such developments and the need for additional housing in the City, particularly housing affordable to households of lower and moderate income. Such commercial uses in the City benefit from the availability of housing close by for their employees. However, the supply of housing units in the City has not kept pace with the demand for housing created by these new employees. Due to this shortage of housing, employers will have difficulty in securing a labor force, and employees, unable to find decent and affordable housing, will be forced to commute long distances, having a negative impact on quality of life, limited energy resources, air quality, social equity, and already overcrowded highways and public transport.

~~B.~~ *(b)* There is a low vacancy rate for housing affordable to persons of lower and moderate income. ~~*In part, this low vacancy rate is due to factors unrelated to large-scale commercial development, such as high interest rates, high land costs in the City, immigration from abroad, demographic changes such as the reduction in the number of persons per household, and personal, subjective choices by households that San Francisco is a desirable place to live.*~~ This low vacancy rate is ~~*also*~~ due in part to large-scale commercial developments, which have attracted and will continue to attract additional employees and residents to the City. Consequently, some of the employees attracted to these developments are competing with present residents for scarce, vacant affordable housing units in the City. Competition for housing generates the greatest pressure on the supply of housing affordable to households of lower and moderate income. In San Francisco, office or retail uses of land generally yield higher income to the owner than housing. Because of these market forces, the supply of these affordable housing units will not be expanded. Furthermore, Federal and State housing finance and subsidy programs are not sufficient by themselves to satisfy the lower and moderate income housing requirements of the City.

~~C.~~*(c) The City has consistently set housing production goals to address the regional and citywide forecasts for population, households, and employment. Although San Francisco has seen increased housing production each successive decade since the 1970s, the City has not been able to close the gap between its housing production goals and actual production.* ~~*As demonstrated in the "Jobs Housing Nexus Analysis" prepared by Keyser Marston Associates, Inc. in June 1997, construction of new housing units in the City decreased to a low of 288 units in 1993 compared to an average annual production of 1,330 units during the years 1980 through 1995. Overall housing production in the City should average approximately 2,200 units a year to keep up with the City's share of regional housing demand.*~~

~~D.~~*(d)* There is a continuing shortage of low- and moderate-income housing in San Francisco. ~~*Affordable housing production in the City averaged approximately 340 units per year during the years 1980 through 1995. However, the demand for new affordable housing will be approximately 1,300 units per year for the years 2000 through 2015.*~~

~~*E. Objective 1, Policy 7 of the Residence Element of the San Francisco General Plan calls for the provision of additional housing to accommodate the demands of new residents attracted to the City by expanding employment opportunities caused by the growth of large-scale commercial activities in the City. Such development projects should assist in meeting the City's housing needs by contributing to the provision of housing.*~~

~~F.~~ It is desirable to impose the cost of the increased burden of providing housing necessitated by large-scale commercial development projects directly upon the sponsors of the development projects by requiring that the project sponsors contribute land ~~*or money to a housing developer*~~ or pay a fee to the City to subsidize housing development as a condition of the privilege of development and to assist the community in solving those of its housing problems generated by the development.

~~G. The required housing exaction shall be based upon formulas derived in the report entitled "Jobs Housing Nexus Analysis" prepared by Keyser Marston Associates, Inc. in June 1997. The "Jobs Housing Nexus Analysis" demonstrates the validity of the nexus between new, large-scale entertainment, hotel, office, research and development, and retail development and the increased demand for housing in the City, and the numerical relationship between such development projects and the formulas for provision of housing set forth in Section 413.1 et seq.~~

~~H. In-lieu fees for new office construction to the City's Office Affordable Housing Production Program, were last increased in 1994 to $7.05 per square foot, based on the "Analysis of the OAHPP Formula prepared by the Department of City Planning in November 1994." Existing law provides for potential increases to such fees up to 20% annually based on increases to the Average Area Purchase Price Safe Harbor Limitations for New Single-Family Residences for the San Francisco Primary Metropolitan Statistical Area ("PMSA") published by the Internal Revenue Service.~~

~~I. The Internal Revenue Service last published its Average Area Purchase Price Safe Harbor Limitations for New Single-Family Residences for the San Francisco PMSA in 1994.In 1998 and again in 2000, the City contracted for an analysis of average area purchase price for the San Francisco PMSA, in lieu of IRS publication of the index. The 2000 report prepared by Vernazza Wolfe Associates for mortgage purposes, which was certified by Orrick, Herrington & Sutcliffe, indicates that the 1999 updated purchase price figures for new construction are $431,568, a 73.3% increase over the 1994 purchase price of $248,969.~~

~~J. If OAHPP fees had been increased consistent with these increases in the Average Area Purchase Price Safe Harbor Limitations for New Single-Family Residences for the San Francisco PMSA, the OAHPP in-lieu fee for net new office construction would be $12.22 per square foot, or approximately 54% of the maximum derived by the "Jobs Housing Nexus Analysis" prepared by Keyser Marston Associates, Inc. in June 1997.~~

~~*K.*~~*(e)* ~~*Since preparation of the Keyser Marston "Jobs Housing Nexus Analysis," the*~~ *The* Bay Area has seen dramatic increases in land acquisition costs for housing, the cost of new housing development and the affordability gap for low to moderate income workers seeking housing. Commute patterns for the region have also changed, with more workers who work outside of San Francisco seeking to live in the City, thus increasing demand for housing and decreasing housing availability.

*(f) As the regional job center, San Francisco has historically had the highest ratio of jobs-to-housing units in the Bay Area.*

*(g) The required housing exaction shall be based upon formulas derived in a periodic jobs housing nexus analysis. Consistent with the requirements of the California Mitigation Fee Act, the jobs housing nexus analysis shall demonstrate the validity of the nexus between new, large scale entertainment, hotel, office, laboratory, and retail development and the increased demand for housing in the City, and the numerical relationship between such development projects and the formulas for the provision of housing set forth in Section 413.1 et seq.*

*(h) The Board of Supervisors has reviewed the Jobs Housing Nexus Analysis prepared by Keyser Marsten Associates, Inc., dated May 2019, which is on file with the Clerk of the Board in Board File No. 190548, and adopts the findings and conclusions of that study, and incorporates the findings by reference herein to support the imposition of the fees under Section 413.1 et seq.*

~~*L. Because the shortage of affordable housing created by large-scale commercial development in the City can be expected to continue for many years, it is necessary to maintain the affordability of the housing units constructed by developers of such projects under this program. In order to maintain the long-term affordability of such housing, the City is authorized to enforce affordability requirements through mechanisms such as shared*~~

~~*appreciation mortgages, deed restrictions, enforcement instruments, and rights of first refusal exercisable by the City at the time of resale of housing units built under the program.*~~

~~*M. Objective 8, Policy 2 of the Residence Element of the San Francisco General Plan encourages the Commission to periodically reassess requirements placed on large-scale commercial development under the Office Affordable Housing Production Program ("OAHPP"), predecessor to the Jobs-Housing Linkage Program.*~~

**SEC. 413.4. IMPOSITION OF HOUSING REQUIREMENT.**

* * * *

(c) **Sponsor's Choice to Fulfill Requirements.** Prior to issuance of a building or site permit for a development project subject to the requirements of Section 413.1 *et seq.*, the sponsor shall elect one of the ~~*three*~~ options listed below to fulfill any requirements imposed as a condition of approval and notify the Department of their choice of the following:

(1) *Contribute land of value at least equivalent to the in-lieu fee, according to the formulas set forth in Section 413.1 et seq., to MOHCD pursuant to Section 413.6*~~7~~*; or* ~~*Contribute of a sum or land of value at least equivalent to the in-lieu fee, according to the formulas set forth in Section 413.1, to one or more housing developers who will use the funds or land to construct housing units pursuant to Section 413.5; or*~~

(2) Pay an in-lieu fee to the Development Fee Collection Unit at DBI according to the formula set forth in Section 413.5~~6~~; or

(3) Combine the above options pursuant to Section 413.7~~8~~.

* * * *

~~*SEC. 413.5. COMPLIANCE BY PAYMENT TO HOUSING DEVELOPER.*~~

~~*(a) With the written approval of the Director of MOH, the project sponsor may elect to pay a sum or contribute land of value at least equivalent to the in-lieu fee to one or more housing*~~

~~developers to meet the requirements of Section 413.1et seq. If the sponsor elects this option and the Director of MOH approves it, the housing developer or developers shall be required to construct at least the number of housing units determined by the following formulas for each type of space proposed as part of the development project and subject to Section 413.1et seq.~~:

| | |
|---|---|
| ~~*Net Addition Gross Sq. Ft. Entertainment Space*~~ | ~~*× .000140 = Housing Units*~~ |
| ~~*Net Addition Gross Sq. Ft. Hotel Space*~~ | ~~*× .000110 = Housing Units*~~ |
| ~~*Net Addition Gross Sq. Ft. Office Space*~~ | ~~*× .000270 = Housing Units*~~ |
| ~~*Net Addition Gross Sq. Ft. R&D Space*~~ | ~~*× .000200 = Housing Units*~~ |
| ~~*Net Addition Gross Sq. Ft. Retail Space*~~ | ~~*× .000140 = Housing Units*~~ |

~~*The housing units required to be constructed under the above formula must be affordable to qualifying households continuously for 50 years. If the sponsor elects to contribute to more than one distinct housing development under this Section, the sponsor shall not receive credit for its monetary contribution to any one development in excess of the amount of the in-lieu fee, as adjusted under Section 413.6, multiplied by the number of units in such housing development.*~~

~~*(b) Prior to the issuance by DBI of the first site or building permit for a development project subject to Section 413.1et seq. the sponsor shall submit to the Department, with a copy to MOH:*~~

~~*(1) A written housing development plan identifying the housing project or projects to receive funds or land from the sponsor and the proposed mechanism for enforcing the*~~

~~*requirement that the housing units constructed will be affordable to qualifying households for 50 years; and*~~

~~*(2) A certification that the sponsor has made a binding commitment to contribute an amount of money or land of value at least equivalent to the amount of the in-lieu fee that would otherwise be required under Section 413.6 to one or more housing developers and that the housing developer or developers shall use such funds or lands to develop the housing subject to this Section.*~~

~~*(3) A self-contained appraisal report as defined by the Uniform Standards of Professional Appraisal Practice prepared by an M.A.I. appraiser of the fair market value of any land to be contributed by the sponsor to a housing developer. The date of value of the appraisal shall be the date on which the sponsor submits the housing development plan and certification to the Department.*~~

~~*If the sponsor fails to comply with these requirements within one year of the final determination or revised final determination, it shall be deemed to have elected to pay the in-lieu fee under Section 413.6, and any deferral surcharge, in order to comply with Section 413.1et seq. In the event that the sponsor fails to pay the in-lieu fee within the time required by Section 413.6, DBI shall deny any and all site or building permits or certificates of occupancy for the development project until the such payment has been made or land contributed, and the Development Fee Collection Unit at DBI shall immediately initiate lien proceedings against the sponsor's property pursuant to Section 408 of this Article and Section 107A.13 of the San Francisco Building Code to recover the fee.*~~

~~*(c) Within 30 days after the sponsor has submitted a written housing development project plan and, if necessary, an appraisal to the Department and MOH under Subsection(b) of this Section, the Department shall notify the sponsor in writing of its initial determination as to whether the plan and appraisal are in compliance with this Section, publish the initial*~~

~~*determination in the next Commission calendar, and cause a public notice to be published in an official newspaper of general circulation stating that such housing development plan has been received and stating the Department's initial determination. In making the initial determination for an application where the sponsor elects to contribute land to a housing developer, the Department shall consult with the Director of Property and include within its initial determination a finding as to the fair market value of the land proposed for contribution to a housing developer. Within 10 days after such written notification and published notice, the sponsor or any other person may request a hearing before the Commission to contest such initial determination. If the Department receives no request for a hearing within such 10-day period, the determination of the Department shall become a final determination. Upon receipt of any timely request for hearing, the Department shall schedule a hearing before the Commission within 30 days. The scope of the hearing shall be limited to the compliance of the housing development plan and appraisal with this Section, and shall not include a challenge to the amount of the housing requirement imposed on the development project by the Department or the Commission. At the hearing, the Commission may either make such revisions to the Department's initial determination as it may deem just, or confirm the Department's initial determination. The Commission's determination shall then become a final determination, and the Department shall provide written notice of the final determination to the sponsor, MOH, and to any person who timely requested a hearing of the Department's determination. The Department shall also provide written notice to MOH that the housing units to be constructed pursuant to such plan are subject to Section 413.1et seq.*~~

~~*(d) Prior to the issuance by DBI of the first construction document for a development project subject to this Section, the sponsor must:*~~

~~*(1) Provide written evidence to the Department that it has paid in full the sum or transferred title of the land required by Subsection (a) of this Section to one or more housing developers;*~~

~~*(2) Notify the Department that construction of the housing units has commenced, evidenced by:*~~

~~*(A) The City's issuance of site and building permits for the entire housing development project,*~~

~~*(B) Written authorization from the housing developer and the construction lender that construction may proceed,*~~

~~*(C) An executed construction contract between the housing developer and a general contractor, and*~~

~~*(D) The issuance of a performance bond enforceable by the construction lender for 100 percent of the replacement cost of the housing project; and*~~

~~*(3) Provide evidence satisfactory to the Department that the units required to be constructed will be affordable to qualifying households for 50 years through an enforcement mechanism approved by the Department pursuant to Subsections (b) through (d) of this Section.*~~

~~*(e) Where the sponsor elects to pay a sum or contribute land of value equivalent to the in-lieu fee to one or more housing developers, the sponsor's responsibility for completing construction of and maintaining the affordability of housing units constructed ceases from and after the date on which:*~~

~~*(1) The conditions of (1) through (3) of Subsection (d) of this Section have been met; and*~~

~~*(2) A mechanism has been approved by the Director to enforce the requirement that the housing units constructed will be affordable to qualifying households continuously for 50 years.*~~

~~*(f) If the project sponsor fails to comply with these requirements prior to issuance of the first certificate of occupancy by DBI, it shall be deemed to have elected to pay the in-lieu fee under Section 413.6 and the deferral surcharge in order to comply with Section 413.1et seq. DBI shall deny any and all certificates of occupancy for the development project until such payment has been made.*~~

**SEC. 413.5~~6~~. COMPLIANCE ~~*WITH JOBS-HOUSING LINKAGE PROGRAM*~~ BY PAYMENT OF IN-LIEU FEE.**

(a) The amount of the fee which may be paid by the sponsor of a development project ~~*subject to this Section in lieu of developing and providing the housing required by Section 413.5*~~ shall be determined by the following formulas for each type of space proposed as part of the development project and subject to this Article *4*.

(1). For applicable projects (as defined in Section 413.3), any net addition shall pay per the Fee Schedule in Table 413.5~~6~~A, and

(2) For applicable projects (as defined in Section 413.3), any replacement or change of use shall pay per the Fee Schedule in Table 413.5~~6~~B.

* * * *

**TABLE 413.5~~6~~A**

**FEE SCHEDULE FOR NET ADDITIONS OF GROSS SQUARE FEET**

| ***Use*** | ***Fee per Gross Square Foot*** |
|---|---|
| Entertainment | $18.62 |
| Hotel | $14.95 |
| ~~*Integrated PDR*~~ | ~~*$15.69*~~ |
| Institutional | $0~~*.00*~~ |

| | |
|---|---|
| Office (50,000 gsf and above) | $~~19.96~~~~69.60~~See subsection (c) below. |
| Office (up to 49,999 gsf) | See subsection (d) below. |
| PDR | $0~~.00~~ |
| *Laboratory~~Research & Development~~* | $~~13.30~~~~46.43~~See subsection (~~e~~d) below. |
| Residential | $0~~.00~~ |
| Retail | $18.62 |
| Small Enterprise Workspace | $15.69 |

**TABLE 413.56B**

**FEE SCHEDULE FOR REPLACEMENT OF USE OR CHANGE OF USE**

| ***Previous Use*** | ***New Use*** | ***Fee per Gross Square Foot*** |
|---|---|---|
| Entertainment, Hotel, ~~*Integrated PDR,*~~ Office, *Laboratory~~Research & Development~~*, Retail, or Small Enterprise Workspace | Entertainment, Hotel, ~~*Integrated PDR,*~~ Office, Retail, or Small Enterprise Workspace | $0~~.00~~ |
| PDR which received its First Certificate of Occupancy on or before April 1, 2010 | Entertainment, Hotel, ~~*Integrated PDR,*~~ Office, *Laboratory~~Research & Development~~*, Retail, or | Use Fee from Table 413.56A minus $14.09 |

| | | |
|---|---|---|
| | Small Enterprise Workspace | |
| Institutional which received its First Certificate of Occupancy on or before April 1, 2010 | Entertainment, Hotel, ~~Integrated PDR,~~ Office, Laboratory~~Research & Development~~, Retail, or Small Enterprise Workspace | $0~~.00~~ |
| Institutional or PDR which received its First Certificate of Occupancy on or before April 1, 2010 | Institutional, PDR, Laboratory~~Research & Development~~, Residential | $0~~.00~~ |
| Institutional or PDR which received its First Certificate of Occupancy after April 1, 2010 | Any | Use Fee from Table 413.5~~6~~ |
| Residential | Entertainment, Hotel, ~~Integrated PDR,~~ Office, PDR, Laboratory~~Research & Development~~, Retail, or Small Enterprise Workspace | Use Fee from Table 413.5~~6~~ |

~~*No later than January 1 of each year, MOHCD shall adjust the in-lieu fee payment option. No later than November 1 of each year, MOHCD shall provide the Planning Department, DBI, and the Controller with information on the adjustment to the in-lieu fee*~~

~~*payment option so that it can be included in the Planning Department's and DBI's website notice of the fee adjustments and the Controller's Citywide Development Fee and Development Impact Requirements Report described in Section 409(a). MOHCD is authorized to develop an appropriate methodology for indexing the fee, based on adjustments in the costs of constructing housing and in the price of housing in San Francisco consistent with the indexing for the Residential Inclusionary Affordable Housing Program in lieu fee set out in Section 415.6. The method of indexing shall be published in the Procedures Manual for the Residential Inclusionary Affordable Housing Program. In making a determination as to the amount of the fee to be paid, the Department shall credit to the sponsor any excess Interim Guideline credits or excess credits which the sponsor elects to apply against its housing requirement.*~~

(*b*~~e~~) Any in-lieu fee required under this Section *413.5*~~6~~ is due and payable to the Development Fee Collection Unit at DBI at the time of and in no event later than issuance of the first construction document, with an option for the project sponsor to defer payment to prior to issuance of the first certificate of occupancy upon agreeing to pay a deferral surcharge that would be deposited into the Citywide Affordable Housing Fund in accordance with Section 107A.13.3 of the San Francisco Building Code.

*(c)* **Office Fees for Large Capital Projects.** *Notwithstanding any other provision of this Code,* fees for the net addition of 50,000 gross square feet and above of Office Use shall be paid as follows:

(1) F~~f~~*or any project that (1) received an approval from the Planning Commission or Planning Department on or before* ~~December 31~~September 10, *2019, stating that the project shall be subject to any new, changed, or increased Jobs Housing Linkage Fee adopted prior to that project's procurement of a Certificate of Occupancy or Final Completion, and (2) has not procured a Certificate of Occupancy or Final Completion as of the effective date*

*of the ordinance in Board File No. 190548, amending this Section 413.5*~~6~~*, such project shall pay* ~~$57.14 per gross square foot, and pay~~ *the difference between the amount of the fees assessed at the time of site permit issuance and any additional amounts due under the new, changed, or increased fee* up to $52.20 *before the City may issue a Certificate of Occupancy or Final Completion.*

(2) For any project that has submitted a complete Preliminary Project Assessment~~environmental evaluation application~~ on or before September 10, 2019, and has not had ~~received~~ its building or site permit issued as of the effective date of this ordinance in Board File No. 190548, such project, regardless of when it submitted its complete Development Application, shall pay $52.20~~57.14~~ per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(3) For any project that has submitted a complete ~~environmental evaluation~~Development ~~a~~Application between the dates of September 11, 2019, and January 1, 2021~~2~~, and has not had ~~received~~ its building or site permit issued as of the effective date of this ordinance in Board File No. 190548, such project shall pay $60.90~~63.37~~ per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(4) For any project that has submitted a complete ~~environmental evaluation~~Development ~~a~~Application after January 1, 2021~~2~~, shall pay $69.60 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(d) **Office Fees for Small Capital Projects.** Notwithstanding any other provision of this Code, fees for the net addition up to 49,999 gross square feet of Office Use shall be paid as follows:

(1) For any project that has submitted a complete Preliminary Project Assessment on or before September 10, 2019, and has not had its building or

site permit issued as of the effective date of this ordinance in Board File No. 190548, such project, regardless of when it submitted its complete Development Application, shall pay $46.98 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(2) For any project that has submitted a complete Development Application between the dates of September 11, 2019, and January 1, 2021~~2~~, and has not had its building or site permit issued as of the effective date of this ordinance in Board File No. 190548, such project shall pay $54.81 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(3) For any project that has submitted a complete Development Application after January 1, 2021~~2~~, shall pay $62.64 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(e) **Laboratory Fees**. Notwithstanding any other provision of this Code, fees for the net addition of Laboratory Use shall be paid as follows:

(1) For any project that has submitted a complete Preliminary Project Assessment~~environmental evaluation application~~ on or before September 10, 2019, and has not had ~~received~~ its building or site permit issued as of the effective date of this ordinance in Board File No. 190548, such project, regardless of when it submitted its complete Development Application, shall pay $31.43~~38.05~~ per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(2~~3~~) For any project that has submitted a ~~environmental evaluation~~ Development ~~a~~Application between the dates of September 11, 2019, and January 1, 2021~~2~~, and has not had ~~received~~ its building or site permit issued as of the effective date of this ordinance in Board File No. 190548, such project shall pay

$34.90~~42.20~~ per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(34) For any project that has submitted a ~~environmental evaluation~~ Development ~~a~~Application after January 1, 2021~~2~~, shall pay $38.37~~46.43~~ per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

**SEC. 413.6~~7~~. COMPLIANCE BY LAND DEDICATION *~~WITHIN THE CENTRAL SOMA SPECIAL USE DISTRICT~~*.**

(a) **Controls.** *~~Within the Central SoMa Special Use District,~~* *P*~~p~~rojects may satisfy all or a portion of the requirements of Section 413.*1 et seq.* *~~5, 413.6 and 413.8~~* via dedication of land *to the City for the purpose of constructing units affordable to qualifying households*. Projects may receive a credit against such requirements up to the value of the land donated, calculated pursuant to subsection (b) below.

(b) **Requirements.**

(1) The value of the dedicated land shall be determined by the Director of Property pursuant to Chapter 23 of the Administrative Code, but shall not exceed the actual cost of acquisition by the project sponsor of the dedicated land in an arm's length transaction. Prior to issuance by DBI of the first site or building permit for a development project subject to Section 413.1 *et seq*. the sponsor shall submit to the Department, with a copy to MOHCD and the Director of Property, documentation sufficient to substantiate the actual cost of acquisition by the sponsor in an arm's length transaction of any land to be dedicated by the sponsor to the City *~~and County of San Francisco~~*, and any additional information that would impact the value of the land.

(2) Projects are subject to the requirements of Section 419.5(a)(2)(A) and (C)*~~through~~* (J).

**SEC. 413.7~~8~~. COMPLIANCE BY COMBINATION OF ~~*PAYMENT TO HOUSING DEVELOPER AND*~~ PAYMENT OF IN-LIEU FEE *AND LAND DEDICATION*.**

With the written approval of the Director of MOH*CD*, the sponsor of a development project subject to Section 413.1 *et seq.* may elect to satisfy its housing requirement by a combination of ~~*paying money or*~~ contributing land to *the City under Section 413.6*~~7~~ ~~*one or more housing developers under Section 413.5*~~ and paying a partial amount of the in-lieu fee to the Development Fee Collection Unit at DBI under Section 413.5~~6~~. In the case of such election, the sponsor must pay a sum such that each gross square foot of net addition of each type of space subject to Section 413.1 *et seq.* is accounted for in either the ~~*payment of a sum or*~~ contribution of land to *the City under Section 413.6*~~7~~ ~~*one or more housing developers*~~ or the payment of a fee to the Development Fee Collection Unit. ~~*The housing units constructed by a housing developer must conform to all requirements of Section 413.1 et seq., including, but not limited to, the proportion that must be affordable to qualifying households as set forth in Section 413.5.*~~ All of the requirements of Section~~*s 413.5 and*~~ 413.*1 et seq.*~~*6*~~ shall apply, including the requirements with respect to the timing of issuance of site and building permits, first construction documents, and certificates of occupancy for the development project and payment of the in-lieu fee.

**SEC. 413.8~~9~~. LIEN PROCEEDINGS.**

A project sponsor's failure to comply with the requirements of Sections ~~*413.5,*~~ 413.5~~6~~ and 413.6~~7~~ shall be cause for the Development Fee Collection Unit at DBI to institute lien proceedings to make the in-lieu fee, as adjusted under Section 413.5~~6~~, plus interest and any deferral surcharge, a lien against all parcels used for the development project, in accordance with Section 408 of this Article *4* and Section 107A.13.15 of the San Francisco Building Code.

**SEC. 413.9~~10~~. CITYWIDE AFFORDABLE HOUSING FUND.**

*(a) Use of Fees.* All monies contributed pursuant to *the Jobs Housing Linkage Fee Program in Section 413.1 et seq.* ~~*Sections 413.6 or 413.8 or assessed pursuant to Section 413.9*~~ shall be deposited in the Citywide Affordable Housing Fund ("Fund"), established in Administrative Code Section 10.100-49. The receipts in the Fund collected under Section 413.*1* *et seq*. shall be used solely to increase the supply of housing affordable to qualifying households subject to the conditions of this Section *413.9*~~10~~. The fees collected under this Section may not be used, by way of loan or otherwise, to pay any administrative, general overhead, or similar expense of any entity. ~~*The Mayor's Office of Housing and Community Development ("*~~MOHCD~~*")*~~ shall develop procedures such that, for all projects funded by the Citywide Affordable Housing Fund, MOHCD requires the project sponsor or its successor in interest to give preference in occupying units as provided for in Administrative Code Chapter 47.

*(1)* ***Preservation and Acquisition Funds.***

*(A)* ***Designation of Funds****. MOHCD shall designate and separately account for 10% of all fees that it receives under Section 413.1 et seq. that are deposited into the Fund to support the acquisition and rehabilitation of rent restricted affordable rental housing.*

*(B)* ***Use of Preservation and Acquisition Funds****. The funds shall be used exclusively to acquire and preserve existing housing with the goal of making such housing permanently affordable, including but not limited to acquisition of housing through the City's Small Sites Program. Units supported by monies from the Fund shall be designated as housing affordable to qualified households for the life of the project. Properties supported by the Preservation and Acquisition Funds must be:*

*(i) rental properties that will be maintained as rental properties;*

*(ii) vacant properties that were formerly rental properties as long as those properties have been vacant for a minimum of two years prior to the effective date of the ordinance in Board File No. 190548, amending this Section 413.9*~~10~~*;*

*(iii) properties that have been the subject of foreclosure; or*

*(iv) a Limited Equity Housing Cooperative as defined in Subdivision Code Sections 1399.1 et seq. or a property owned or leased by a non-profit entity modeled as a Community Land Trust.*

*(C) **Annual Report.** At the end of each fiscal year, MOHCD shall issue a report to the Board of Supervisors regarding the total amount of Preservation and Acquisition Funds received, and how those funds were used.*

*(D) **Intent.** In establishing guidelines for Preservation and Acquisition Funds, the Board of Supervisors does not intend to preclude MOHCD from expending other eligible sources of funding on Preservation and Acquisition as described in this Section 413.9*~~10~~

*(2) **Permanent Supportive Housing.** MOHCD shall designate and separately account for 30% of all fees that it receives under Section 413.1 et seq. that are deposited into the Fund to support the development of permanent supportive housing that meets the requirements of Section 413.1 et seq.*

*(b) **Accounting of Funds in Central SoMa Special Use District.*** Pursuant to Section 249.78(e)(1), all monies contributed pursuant to the Jobs-Housing Linkage Program and collected within the Central SoMa Special Use District shall be paid into the Citywide Affordable Housing Fund, but the funds shall be separately accounted for. *Consistent with the allocations in subsection (a), s*~~S~~uch funds shall be expended within the

area bounded by Market Street, the Embarcadero, King Street, Division Street, and South Van Ness Avenue.

**SEC. 413.11. ~~DIRECTOR OF PLANNING'S~~ EVALUATION OF FEE.**

(a) If, in the discretion of the Director of Planning, there has been a substantial change in the San Francisco and/or regional economies since the effective date of the requirements of Section 413.1 *et seq.*, the Director may recommend to the Commission, the Board of Supervisors, and the Mayor that Section 413.1 *et seq.* be amended or rescinded to alleviate any undue burden on commercial development in the City that Section 413.1 *et seq.* may impose.

(b) At the next comprehensive evaluation of all development fees and development impact requirements, pursuant to Section 410, the Controller, in consultation with the Department, and MOHCD and any necessary consultants, consistent with the civil service provisions of the Charter, and every five years thereafter, shall commission an update to the Jobs-Housing Nexus Analysis. The comprehensive evaluation of the Jobs-Housing Linkage Fee, pursuant to Section 410, shall include an evaluation of office projects in a range of sizes and an assessment of the availability of office allocation.

**SEC. 415.5. AFFORDABLE HOUSING FEE.**

* * * *

(f) **Use of Fees.** All monies contributed pursuant to the Inclusionary Affordable Housing Program shall be deposited in the Citywide Affordable Housing Fund ("~~*the*~~ Fund"), established in Administrative Code Section 10.100-49, except as specified below. ~~*The Mayor's Office of Housing and Community Development* (~~"MOHCD~~")~~ shall use the funds collected under this Section 415.5 in the following manner:

* * * *

(2) **"Small Sites Funds."**

(A) **Designation of Funds.** MOHCD shall designate and separately account for 10% of all fees that it receives under Section 415.1 *et seq*. that are deposited into the ~~*Citywide Affordable Housing*~~ Fund~~*, established in Administrative Code Section 10.100-49*~~, excluding fees that are geographically targeted such as those referred to in Sections 249.78(e)(1), 415.5(b)(1), and 827(b)(1), to support acquisition and rehabilitation of Small Sites ("Small Sites Funds"). ~~*MOHCD shall continue to divert 10% of all fees for this purpose until the Small Sites Funds reach a total of $15 million, at which point MOHCD will stop designating funds for this purpose. At such time as designated Small Sites Funds are expended and dip below $15 million, MOHCD shall start designating funds again for this purpose, such that at no time the Small Sites Funds shall exceed $15 million.*~~ When the total amount of fees paid to the City under Section 415.1 *et seq.* <u>*is*</u> less than $10 million over the preceding 12-month period, MOHCD is authorized to temporarily divert funds from the Small Sites Fund<u>*s*</u> for other purposes. MOHCD shall keep track of the diverted funds, however, such that when the amount of fees paid to the City under Section 415.1 *et seq.* meets or exceeds $10 million over the preceding 12-month period, MOHCD shall commit all of the previously diverted funds and 10% of any new funds~~*, subject to the cap above,*~~ to the Small Sites Fund<u>*s*</u>.

* * * *

(E) **Intent.** In establishing guidelines for Small Sites Funds, the Board of Supervisors does not intend to preclude MOHCD from expending other eligible sources of funding on Small Sites as described in this Section 415.5~~*, or from allocating or expending more than $15 million of other eligible funds on Small Sites*~~.

* * * *

**SEC. 424.4. VAN NESS AND MARKET DOWNTOWN RESIDENTIAL SPECIAL USE DISTRICT AFFORDABLE HOUSING FUND.**

That portion of gross floor area subject to the $30.00 per gross square foot fee referenced in Section 424.3(b)(i) above shall be deposited into the special fund maintained by the Controller called the Citywide Affordable Housing Fund established by Section 413.9~~10~~. Except as specifically provided in this Section, collection, management, enforcement, and expenditure of funds shall conform to the requirements related to in-lieu fees in Planning Code Section 415.1 et seq., specifically including, but not limited to, the provisions of Section 415.7.

Section 3. 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 4. 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:
DENNIS J. HERRERA, City Attorney

By:
AUSTIN M. YANG
Deputy City Attorney

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FILE NO. 190548

**REVISED LEGISLATIVE DIGEST**
(Amended in Board, 10/29/2019)

[Planning Code - Jobs Housing Linkage Fee and Inclusionary Housing]

**Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by clarifying the indexing of the fee, adding options for complying with the fee, phasing increases to the fee, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, requiring periodic evaluation of the nexus study and fee, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302**

Existing Law

Consistent with the California Mitigation Fee Act, the Planning Code provides that certain commercial developments must pay a Jobs-Housing Linkage fee ("JHLF"). The Jobs-Housing Linkage program requires projects constructing new or expanded non-residential buildings of more than 25,000 square feet of development to offset the demand for new affordable housing created by those projects.

The JHLF is codified in Planning Code Section 413.1 *et seq*. Section 413.5 allows a project sponsor to comply with the JHLF by either making a payment, or dedicating land to a housing developer. While most citywide development fees are indexed annually according to the Annual Infrastructure Construction Cost Inflation Estimate, as set forth in Planning Code Section 409, the JHLF is indexed according to procedures developed by the Mayor's Office of Housing and Community Development, pursuant to Section 413.6. Section 413.7 allows projects within the Central SoMa Special Use District to comply with the JHLF by offering land to the City. Projects may receive credit up to the value of the land donated.

Typically, a project must pay any development fees before the issuance of the first construction document. Any funds received pursuant to the JHLF are deposited into the Citywide Affordable Housing Fund.

The Small Sites Funds is a program under the City's Inclusionary Housing program to support acquisition and rehabilitation of "Small Sites," as codified in Planning Code Section 415.1 *et seq.* Funding for the Small Sites program is capped at $15 million.

## Amendments to Current Law

This ordinance would make the following amendments to the JHLF.

- Align the indexing of the JHLF with other fees. Most citywide development fees are indexed according to the Annual Infrastructure Construction Cost Inflation Estimate, pursuant to the Section 409. This amendment would remove the exception to that requirement for the JHLF codified in Section 409, and Section 413.6
- Require the JHLF Nexus Analysis to be updated every five years, and as part of the comprehensive evaluation of fees to address the feasibility of the fee based on several factors, including available office allocation.
- Streamline the findings in Section 413.1. This ordinance would update many of the historical findings related to the JHLF.
- Allow a project sponsor to comply with the JHLF by: paying a fee to the City; offering the City land of equal value to the proposed fee, or a combination of fee and land dedication to the City. It no longer permits a project sponsor to comply with the JHLF by offering to pay a fee or offer land to a housing developer.
- Beginning on January 1, 2021, set the JHLF for large capital Office use (projects 50,000 gsf and greater) at $69.60, small capital Office use (projects up to 49,999 gsf) at $62.64, and Laboratory use at $38.37. Prior to January 1, 2021, the fee amounts would be phased based.
- Require that certain projects pay any additional amounts due under the JHLF prior to the first Certificate of Occupancy.
- Set aside 10% of the fees received through the JHLF for the preservation and acquisition of rent restricted affordable housing, and 30% for permanent supportive housing.

The ordinance would amend the Small Sites Funds under the Inclusionary Housing program by removing the $15 million cap.

At the Land Use Committee on October 21, 2019, the sponsor introduced amendments phasing the increases to the fee for Office Use, and Laboratory Use.

At the full Board on October 29, 2019, the sponsor introduced amendments setting different fees for Office projects greater than 50,000 gsf, and those projects creating up to 49,999 gsf of Office. The sponsor also introduced amendments requiring an update to the nexus study every five years, and an evaluation of the fee. The update and evaluation would be part of the City's comprehensive evaluation of fees pursuant to Section 410.

## Background Information

This ordinance was initially introduced on May 14, 2019. That ordinance made proposed amendments to the findings of section 413.1, and raised the fee for office projects to $38.00. Substitute legislation was introduced on September 10, 2019. The City published an updated

Nexus Study by Keyser Marsten Associates, Inc. in May 2019, and a Feasibility Report by Economic & Planning Systems, Inc. in June 2019. Both the Nexus Study and Feasibility Report are in this Board file.

On September 10, 2019, the sponsor introduced substitute legislation. Following a hearing at the Planning Commission on September 19, 2019, additional amendments were introduced at the Land Use Committee on October 21, 2019. Additional amendments were introduced at the full Board meeting on October 29, 2019.

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BOARD of SUPERVISORS

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September 17, 2019

**File No. 190548-2**

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Ms. Gibson:

On September 10, 2019, Supervisor Haney submitted the proposed substitute legislation:

File No. 190548-2

**Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.**

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

Attachment

c: Joy Navarrete, Environmental Planning
Don Lewis, Environmental Planning

Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it would not result in a direct or indirect physical change in the environment.

joy navarrete
Digitally signed by joy navarrete
DN: dc=org, dc=sfgov, dc=cityplanning, ou=CityPlanning, ou=Environmental Planning, cn=joy navarrete, email=joy.navarrete@sfgov.org
Date: 2019.10.09 15:38:53 -07'00'

BOARD of SUPERVISORS

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May 17, 2019

File No. 190548

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Ms. Gibson:

On May 14, 2019, Supervisor Haney introduced the following proposed legislation:

**File No. 190548**

**Ordinance amending the Planning Code to update the Jobs Housing Linkage Fee; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.**

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

Attachment

c: Joy Navarrete, Environmental Planning
Laura Lynch, Environmental Planning

Not defined as a project under CEQA Guidelines Sections 15378 and 15060(c)(2) because it would not result in a direct or indirect physical change in the environment.

joy navarrete

Digitally signed by joy navarrete
DN: dc=org, dc=sfgov, dc=cityplanning, ou=CityPlanning, ou=Environmental Planning, cn=joy navarrete, email=joy.navarrete@sfgov.org
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SAN FRANCISCO
**PLANNING DEPARTMENT**

1650 Mission St.
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Planning
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September 27, 2019

Ms. Angela Calvillo, Clerk
Honorable Supervisor Haney
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 2019-011975PCA:**
**Jobs Housing Linkage Fee**
**Board File No. 190548**
**Planning Commission Recommendation:** ***Approval***

Dear Ms. Calvillo and Supervisor Haney,

On September 19, 2019, the Planning Commission conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance, introduced by Supervisor Haney that would amend Planning Code to modify the Jobs Housing Linkage Fee. At the hearing the Planning Commission recommended approval of the Ordinance.

The proposed amendments are not defined as a project under CEQA Guidelines Section 15060(c)(2) and 15378 because they do not result in a physical change in the environment.

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

Aaron D. Starr
Manager of Legislative Affairs

cc:
Austin M. Yang, Deputy City Attorney
Courtney McDonald, Aide to Supervisor Haney
Erica Major, Office of the Clerk of the Board

Attachments:
Planning Commission Resolution
Planning Department Executive Summary

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# Planning Commission Resolution No. 20522

HEARING DATE SEPTEMBER 19, 2019

| | |
|---|---|
| *Project Name:* | Jobs Housing Linkage Fee |
| *Case Number:* | 2019-011975PCA [Board File No. 190548] |
| *Initiated by:* | Supervisor Haney / Introduced May 14, 2019; Substituted September 10, 2019 |
| *Staff Contact:* | Diego Sanchez, Legislative Affairs<br>diego.sanchez@sfgov.org, 415-575-9082 |
| *Reviewed by:* | Aaron D Starr, Manager of Legislative Affairs<br>aaron.starr@sfgov.org, 415-558-6362 |

RESOLUTION APPROVING A PROPOSED ORDINANCE THAT WOULD MODIFY THE JOBS HOUSING LINKAGE FEE BY ALLOWING INDEXING OF THE FEE, ADDING OPTIONS FOR COMPLYING WITH THE FEE, REQUIRING PAYMENT OF THE FEE NO LATER THAN AT THE TIME OF FIRST CERTIFICATE OF OCCUPANCY, DEDICATING FUNDS FOR PERMANENT SUPPORTIVE HOUSING AND THE PRESERVATION AND ACQUISITION OF AFFORDABLE HOUSING, AND TO REMOVE THE MONETARY LIMIT FOR THE SMALL SITES FUNDS UNDER THE INCLUSIONARY HOUSING PROGRAM; 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 May 14, 2019 Supervisor Haney introduced a proposed Ordinance under Board of Supervisors (hereinafter "Board") File Number 190548, which would amend the Planning Code to update the Jobs Housing Linkage Fee;

WHEREAS, on July 9, 2019 Supervisor Haney introduced a proposed Resolution under Board File Number 190770 to extend the prescribed time within which the Planning Commission may render its decision on an Ordinance (File No. 190548) amending the Planning Code to update the Jobs Housing Linkage Fee which would amend the Planning Code to update the Jobs Housing Linkage Fee by 90 days;

WHEREAS, on September 10, 2019 Supervisor Haney introduced a substitute Ordinance under Board of Supervisors (hereinafter "Board") File Number 190548, which would amend the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the Fee, adding options for complying with the Fee, requiring payment of the Fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing program;

WHEREAS, The Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance on September 19, 2019; and,

WHEREAS, the proposed Ordinance has been determined to be categorically exempt from environmental review under the California Environmental Quality Act Section 15060(c) and 15378; 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 1650 Mission Street, Suite 400, 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** the proposed ordinance.

## 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:

1. The City needs to periodically analyze its development impact fees to assure that they reflect the latest relationship between non-residential uses and the demand for goods and services they create.

2. Updating the JHLF rate is important given that the fee rate has not been analyzed holistically in approximately two decades.

3. **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 7

SECURE FUNDING AND RESOURCES FOR PERMANENTLY AFFORDABLE HOUSING, INCLUDING INNOVATIVE PROGRAMS THAT ARE NOT SOLELY RELIANT ON TRADITIONAL MECHANISMS OR CAPITAL.

Policy 7.1

Expand the financial resources available for permanently affordable housing, especially permanent sources.

*Updating and increasing the Jobs-Housing Linkage Fee will help expand the financial resources available for permanently affordable housing.*

## WESTERN SOMA AREA PLAN

OBJECTIVE 3.5

ENSURE THAT NEW RESIDENTIAL DEVELOPMENTS SATISFY AN ARRAY OF HOUSING NEEDS WITH RESPECT TO TENURE, UNIT MIX AND COMMUNITY SERVICES.

Policy 3.5.5

Provide through the permit entitlement process a range of revenue-generating tools including impact fees, public funds and grants, assessment districts, and other private funding sources, to fund community and neighborhood improvements.

*Updating and increasing the Jobs-Housing Linkage Fee will help provide new resources to fund community improvements such as affordable housing.*

## MISSION AREA PLAN

OBJECTIVE 2.1

ENSURE THAT A SIGNIFICANT PERCENTAGE OF NEW HOUSING CREATED IN THE MISSION IS AFFORDABLE TO PEOPLE WITH A WIDE RANGE OF INCOMES.

Policy 2.1.2

Provide land and funding for the construction of new housing affordable to very low- and low-income households.

*An updated and increased Jobs-Housing Linkage Fee will contribute new resources to construct affordable housing, including for very low- and low-income households.*

OBJECTIVE 2.3

ENSURE THAT NEW RESIDENTIAL DEVELOPMENTS SATISFY AN ARRAY OF HOUSING NEEDS WITH RESPECT TO TENURE, UNIT MIX AND COMMUNITY SERVICES.

Policy 2.3.5

Explore a range of revenue-generating tools including impact fees, public funds and grants, assessment districts, and other private funding sources, to fund community and neighborhood improvements.

*Updating and increasing the Jobs-Housing Linkage Fee will help provide new resources to fund community improvements such as affordable housing.*

## BAYVIEW HUNTERS POINT AREA PLAN

OBJECTIVE 6

ENCOURAGE THE CONSTRUCTION OF NEW AFFORDABLE AND MARKET RATE HOUSING AT LOCATIONS AND DENSITY LEVELS THAT ENHANCE OVERALL RESIDENTIAL QUALITY OF BAYVIEW HUNTERS POINT.

**Policy 6.1**
Encourage development of new affordable ownership units, appropriately designed and located and especially targeted for existing Bayview Hunters Point residents.

*An updated and increased Jobs-Housing Linkage Fee will augment the resources available to construct affordable housing, including ownership units, in the Bayview Hunters Point neighborhood.*

4. **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 because the Ordinance proposes to modify the fee rate and implementation procedures for a development impact fee on office and laboratory uses.*

    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 have a beneficial effect on housing and neighborhood character as the new resources for affordable housing it can generate will help preserve the cultural and economic diversity of the City's neighborhoods.*

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

        *The proposed Ordinance would have a beneficial effect on the City's supply of affordable housing because it proposes to increase the resources available to develop and preserve 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 because it proposes to amend development impact fee rates and implementation procedures.*

    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 as the Ordinance proposes to modify development impact fees on office uses.*

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 as the proposed Ordinance seeks to modify development impact fee rates and their implementation procedures.*

7. That the landmarks and historic buildings be preserved;

   *Because the proposed Ordinance would modify development impact fee rates and implementation procedures, it 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 because the Ordinance proposes to modify development impact fee rates and their implementation procedures.*

5. **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 the proposed Ordinance as described in this Resolution.

I hereby certify that the foregoing Resolution was adopted by the Commission at its meeting on September 19, 2019.

Jonas P. Ionin
Commission Secretary

| | |
|---|---|
| AYES: | Fung, Koppel, Melgar, Moore, Richards |
| NOES: | None |
| ABSENT: | Johnson |
| ADOPTED: | September 19, 2019 |

SAN FRANCISCO
**PLANNING DEPARTMENT**

# Executive Summary
## Planning Code Text Amendment
**HEARING DATE: SEPTEMBER 19, 2019**
**EXTENDED DEADLINE: NOVEMBER 13, 2019**

1650 Mission St.
Suite 400
San Francisco,
CA 94103-2479

Reception:
**415.558.6378**

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Planning
Information:
**415.558.6377**

| | |
|---|---|
| *Project Name:* | Jobs Housing Linkage Fee |
| *Case Number:* | 2019-011975PCA [Board File No. 190548] |
| *Initiated by:* | Supervisor Haney / Introduced May 14, 2019 |
| *Staff Contact:* | Diego Sanchez, Legislative Affairs<br>diego.sanchez@sfgov.org, 415-575-9082 |
| *Reviewed by:* | Aaron Starr, Manager of Legislative Affairs<br>aaron.starr@sfgov.org, 415-558-6362 |
| *Recommendation:* | Approval with Modifications |

## PLANNING CODE AMENDMENT

The proposed Ordinance would amend the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program.

### The Way It Is Now:

Fee Rates

1. The Jobs Housing Linkage Fee for Office uses is currently $28.57/gross square foot (gsf).
2. The Jobs Housing Linkage Fee for Research and Development (Laboratory) uses is currently $19.04/gsf.

Fulfilling the JHLF Requirements

3. To fulfill the Jobs Housing Linkage Fee (JHLF) requirements, Development Projects have the following three options:
   a. contribute a sum or land in value at least equivalent to the in-lieu fee to one or more housing developers to construct housing units;
   b. pay the in-lieu fee; or
   c. combination of the first two.
4. Development Projects within the Central SOMA Special Use District may satisfy all or a portion of the JHLF requirements via dedication of land to the City for the purpose of constructing affordable housing units.

Implementation Procedures

5. For Development Projects subject to the JHLF, the fee rate owed is the fee rate in place at time of site permit issuance.

6. The Mayor's Office of Housing and Community Development (MOHCD) annually adjusts the JHLF rate according to an indexing methodology based on housing construction costs and the price of housing in the City.
7. The JHLF Fee Schedule includes rates for Integrated PDR and Research and Development uses.

MOHCD Managed Housing Funds

8. MOHCD does not currently designate a separate account for 10% of all fees that it receives under the JHLF to be used to support the acquisition and rehabilitation of rent restricted affordable rental housing
9. MOHCD does not currently designate a separate account for 30% of all fee that it receives under the JHLF to be used to support the development of permanent supportive housing
10. The Small Sites Fund that MOHCD manages requires MOHCD to divert 10% of all Affordable Housing Fees received under Planning Code Section 415 to the Small Sites Fund until the Small Sites Fund reaches a total of $15 million, at which point MOHCD stops designating fees to the Small Sites Fund.

### The Way It Would Be:

Fee Rates

1. The Jobs Housing Linkage Fee for Office uses would be $69.60/gsf.
2. The Jobs Housing Linkage Fee for Laboratory uses would be $46.43/gsf.

Fulfilling the JHLF Requirements

3. The first option to fulfill JHLF requirements would be to contribute land of equivalent value to the in-lieu fee to MOHCD. The second and third options would remain unchanged.
4. Development Projects anywhere in the City may fulfill their JHLF requirements via land dedication to the City for the purpose of constructing affordable housing units.

Implementation Procedures

5. Development Projects subject to the JHLF, receiving a Planning Commission or Planning Department approval on by December 31, 2019 stating that the project would be subject to any new JHLF adopted prior to procurement of a Certificate of Occupancy or a Final Completion, and not having procured a Certificate of Occupancy or Final Completion as of the effective date of the proposed Ordinance would be required to pay the difference between the amount of JHLF fees assessed at the time of site permit issuance and any additional amounts due under the new JHLF before the City issues a Certificate of Occupancy or Final Completion.
6. The Controller would annually adjust the JHLF rate based on the Annual Infrastructure Construction Cost Inflation Estimate.
7. The JHLF Fee Schedule would eliminate a rate for Integrated PDR uses, which are no longer defined in the Planning Code or allowed in any zoning district and rename the Research and Development use to "Laboratory" use.

MOHCD Managed Housing Funds

8. MOHCD would be required to establish an account into which 10% of all fees that it receives under the JHLF would be used to support the acquisition and rehabilitation of rent restricted affordable rental housing.

9. MOHCD would be required to designate a separate account for 30% of all fee that it receives under the JHLF to be used to support the development of permanent supportive housing
10. The size of the Small Sites Fund would no longer be limited to $15 million and MOHCD would be allowed to designate larger amounts to the Small Sites Fund

## BACKGROUND

San Francisco has applied development impacts fees on new non-residential uses since the mid 1980's. The Office Affordable Housing Production Program (OAHPP), in effect until the mid-1990's, required office developers to either build affordable housing or pay an in-lieu fee. The magnitude of the fee was established in relation to the costs of offsetting the demand for housing that new office employment created.

The Jobs-Housing Linkage Fee (JHLF), in place since 1996, is the successor to the OAHPP. The JHLF applies to development projects with environmental evaluation applications filed after January 1, 1999 that increase by 25,000 or more gross square feet (gsf) of any combination of Entertainment, Hotel, Integrated PDR, Office, Research and Development, Retail and/or Small Enterprise Workspace uses. Each of these use types has a different JHLF rate. Once the Planning Department has determined the net additional gsf of each use type subject to the JHLF, a project sponsor has three options to fulfill its JHLF requirements. The first is to contribute a sum or land in value at least equivalent to the in-lieu fee to one or more housing developers to construct housing units; the second is to pay the in-lieu fee; and the third is some combination of the first two. When an in-lieu fee option is elected, the fees typically become due prior to the issuance of the first construction document.

## ISSUES AND CONSIDERATIONS

### Updating and increasing the JHLF

The JHLF rate for each applicable use type is updated yearly. Planning Code Section 413.6 tasks the Mayor's Office of Housing (MOH) with annually adjusting the fee rate according to an indexing methodology based on housing construction costs and the price of housing in the City. This method is published in MOH's Procedures Manual for the Residential Inclusionary Affordable Housing Program. Only the JHLF and the Inclusionary Affordable Housing Fee rates are adjusted by MOH. Other development impact fees are adjusted by the Controller. In typical years the JHLF rate, like other development impact fee rates, increases above the previous year's rate.

The JHLF rate may also be adjusted apart from annual indexing. For these increases the City relies on both legal and economic analyses to inform any changes. The first analysis, a legal requirement pursuant to the California State Mitigation Fee Act,[1] is a Jobs Housing Nexus Analysis. The previous Jobs Housing Nexus Analysis the City commissioned was published in 1997. The Jobs Housing Nexus Analysis, like all nexus analyses, must be found consistent with the six requirements of the California State Mitigation Fee Act. In meeting those six requirements, the May 2019 Jobs Housing Nexus Analysis established the relationship between construction of new non-residential buildings, the commensurate added employment and the increased demand for affordable housing. It also established the basis for

[1] Government Code Section 66000, (Mitigation Fee Act)

calculating the JHLF rate that could be imposed on non-residential projects in a manner satisfying State law.[2] This Nexus did not, however, provide recommendations on precise JHLF rates.

The May 2019 Nexus includes notable methodological changes and updates to underlining data for the calculations, resulting in a nexus that legally justifies a significantly higher rate than that of the 1997 study. The most notable methodological change was to assume that all workers in new commercial buildings would live in San Francisco. This contrasts with the 1997 study which assumed that 45% of workers would live elsewhere and commute into the City. This change is consistent with other recently completed studies statewide. Other updates include reflecting the modestly higher density of office workers in contemporary buildings based on new analysis (240 gsf per worker (2019) vs 276 gsf per worker (1997)) and updates to the income distribution of workers in the various industry sectors. The compounding effect of these changes with the substantially higher cost of building affordable housing today compared to 1997 results in a maximum *legally justified* nexus amount that is substantially higher than that from the 1997 study.

The second analysis the City relies on to adjust JHLF rates, or any development impact fee, is a feasibility assessment. The purpose of a feasibility assessment is to understand how different fee rates affect the financial feasibility of prototypical development projects that could be expected in different conditions in San Francisco, including buildings of different scales and locations. Underlying this assessment is the policy rationale that new development fee rates should be set to typically provide for reasonable financial feasibility. A consultant feasibility assessment was commissioned by the City this year to analyze how JHLF rate increases for six office development prototypes, including project typologies currently in the pipeline, affect their feasibility.[3] This assessment found that under certain market conditions, including an assumption of reduced land values and construction costs as well as future increased commercial rents, some modeled office prototypes remain feasible with up to a $10/gsf increase in the JHLF. This would result in a $38.57/gsf total JHLF rate for office projects. Planning Department Staff is unaware of any feasibility assessments analyzing Laboratory uses.

Imposing development impact fee rates above those found feasible would postpone or halt the construction of a Development Project. Any public benefit revenue or public improvements that were expected from such projects would not materialize and would necessarily be postponed or abandoned until such time as market conditions or policy changes make the rates feasible. This is particularly notable for area plans, like the recently approved Central SOMA Plan, that depend on development impact fees and other revenue mechanisms related to new development for financing public benefits and infrastructure. In that case, hundreds of millions of dollars' worth of public recreation and open space projects, pedestrian and bicycle safety improvements, cultural preservation, *and* affordable housing

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[2] Jobs Housing Nexus Analysis, May 2019:
https://sfgov.legistar.com/View.ashx?M=F&ID=7297881&GUID=36D31872-977F-4EC2-A2FE-CDD21E62D99F

[3] Jobs Housing Linkage Fee Update Development Feasibility Assessment, June 2019:
https://sfgov.legistar.com/View.ashx?M=F&ID=7297879&GUID=57038818-AA04-4FBD-9854-8F07B79963E8

would not materialize with an infeasible rate. Similarly, increasing development impact fees for uses without understanding the maximum feasible rate is not a fully informed action.

### Applying new JHLF rates to projects with site permits

Under current code standards, JHLF rates imposed on a Development Project are the rates in place when the Development Project secures its site permit. This is standard for most development impact fees and provides a measure of certainty for Development Project feasibility. Diverging from this practice should be done with care, especially if the goal is to apply increased rates to Development Projects on the verge of securing site permits. This would include many projects in the Central SOMA Area Plan. For example, when selecting dates tied to Planning Commission approvals or Ordinance effective dates to establish new rate application, it makes sense to select dates that are far into the future given the propensity for delays. This can close loopholes and avoid unintended consequences and confusion when collecting the JHLF.

### Racial and Social Equity Analysis

Assuming the rates are financially feasible, updating and increasing the JHLF for Office and Laboratory uses augments available resources that fund affordable housing projects throughout the City. Many of these projects will be in neighborhoods with a large presence of communities of color, such as the SOMA, Mission and Bayview/Hunters Point. This aligns with the Area Plan goals that call for providing additional resources for affordable housing and for developing affordable housing in these neighborhoods.[4] By providing new resources to expand the stock of affordable housing in communities of color the proposed Ordinance works to further racial and social equity.

### General Plan Compliance

The proposed Ordinance is in alignment with the relevant General Plan Objectives and Policies. For example, by updating and increasing the JHLF the Ordinance will help expand the financial resources available for permanently affordable housing, which is a policy found in the Housing Element.

### Implementation

The Department has determined that this Ordinance will not impact our current implementation procedures.

## RECOMMENDATION

The Department recommends that the Commission *approve with modifications* the proposed Ordinance and adopt the attached Draft Resolution to that effect. The Department's proposed modification is as follows:

1. Amend JHLF rates according to feasibility assessments.

[4] Mission Area Plan; Objective 2.1, Policy 2.1.2 and Objective 2.3, Policy 2.3.5; Bayview Hunters Point Area Plan, Objective 6, Policy 6.1; Western SOMA Area Plan Objective 3.5, Policy 3.5.5.

## BASIS FOR RECOMMENDATION

The Department supports the overarching aims of the Ordinance. The City needs to periodically analyze its development impact fees to assure that they reflect the latest relationship between non-residential uses and the demands they create. Updating the JHLF rate is important given that the fee rate has not been holistically analyzed in approximately two decades. Further refining how Development Projects may fulfill their JHLF requirements and how the fee program is implemented, including who and how the fee rate is set, are also important amendments. The Department does have concerns about particular proposed changes and is making the following recommendation:

**Recommendation 1: Amend JHLF rates according to feasibility assessments.** Development impact fee rates should be set in accordance with feasibility assessments. This assures that the City captures as much value from new Development Projects without jeopardizing their viability. In this way the City gains both the new Development Project and associated impact fees to fund public infrastructure and benefits. The City has a feasibility assessment for Office uses that recommends a rate no higher than $38.57/gsf. Unless a newer or separate study can demonstrate a higher feasible rate, the rates should be set reflective of this information. Staff is unaware of a similar assessment for Laboratory uses. Without a current feasibility assessment of Laboratory uses, Staff cannot recommend increasing rates for this use.

## 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 amendments are not defined as a project under CEQA Guidelines Section 15060(c)(2) and 15378 because they do not result in a physical change in the environment.

## PUBLIC COMMENT

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

**Attachments:**

| | |
|---|---|
| Exhibit A: | Draft Planning Commission Resolution |
| Exhibit B: | Jobs Housing Nexus Analysis, May 2019 |
| Exhibit C: | Jobs Housing Linkage Fee Update Development Feasibility Assessment, June 2019 |
| Exhibit D: | Board of Supervisors File No. 1905448 |

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RECEIVED IN COMM
10/16/2019


CITY AND COUNTY OF SAN FRANCISCO

BOARD OF SUPERVISORS

**BUDGET AND LEGISLATIVE ANALYST**

1390 Market Street, Suite 1150, San Francisco, CA 94102

(415) 552-9292 FAX (415) 252-0461


# Policy Analysis Report

To: Supervisor Gordon Mar

From: Budget and Legislative Analyst's Office

Re: Jobs-Housing Fit

Date: October 16, 2019

Fred Brousseau

## Summary of Requested Action

You requested that the Budget and Legislative Analyst evaluate the current and planned housing stock in San Francisco relative to projected future jobs and population in the City to determine if existing and planned housing is adequate for the projected population of the City in coming years. Specifically, you asked that the analysis compare projected jobs and their wages to determine if the City's housing stock will be sufficient in number and affordability for all income segments of the City's population. You suggested that this assessment include actual new housing built by private developers and through City programs.

You also requested that we provide information on the City's Jobs Housing Linkage program and fees and the processes by which the fees are used for affordable housing programs administered by the Mayor's Office of Housing and Community Development to address the City's jobs-housing fit.

***For further information about this report, contact Fred Brousseau, Director of Policy Analysis, at the Budget and Legislative Office.***

*Project Staff: Michelle Lau, Jennifer Tell, Fred Brousseau*

## EXECUTIVE SUMMARY

- The population of San Francisco grew at higher rates than housing production between 2010 and 2018. The population increased by 84,070, or 10.4%, whereas housing units increased by 24,671, or 6.5%.
- The number of low- and moderate-income households decreased by 23% and 8%, respectively, between 2010 and 2018 but the number of high-income households increased by 44% between 2010 and 2017. Average household size by income level remained steady.

**Exhibit A: Changes in Households by Income in San Francisco, 2010 and 2017**

| Household Income Level | 2010 | 2017 | Change | % Change |
|---|---|---|---|---|
| Low-income ( < 80% AMI) | 146,152 | 112,186 | (33,966) | (23%) |
| Moderate-income (80-120% AMI) | 52,117 | 48,128 | (3,989) | (8%) |
| High-income ( > 120% AMI) | 137,687 | 198,458 | 60,771 | 44% |
| Total households | 335,956 | 358,772 | 22,816 | 7% |
| Median income ($) | $71,304 | $96,265 | | 35% |

- Between just 2016 and 2018, the number of jobs in the San Francisco area[1] increased by 96,360, a 9% increase. Job growth was concentrated in high-wage and low-wage industries though housing production was concentrated on market rate, or high income, housing. Jobs in moderate-wage industries remained steady.
- Between 2010 and 2018, 6,224 affordable housing units were added to the San Francisco housing stock, representing 25% of the 24,671 new housing units added. During the same period, 210,000 jobs were added in San Francisco.
- Job growth far outpaced housing production between 2010 and 2018, with 8.5 new jobs for each new housing unit produced between 2010 and 2018.

**Exhibit B: Reduction in Housing Production Relative to Job Growth in San Francisco, 2010-2018**

| | 2010 | 2018 | 2010-2018 |
|---|---|---|---|
| Jobs | 550,300 | 760,300 | 210,000 |
| Housing Units | 376,942 | 401,613 | 24,671 |
| Jobs/Housing Unit | 1.5 | 1.9 | 8.5 |

- For just 2016 through 2018, we estimate that 27,546 new low- and moderate- wage jobs were added in San Francisco. During the same time, 2,913 affordable housing units were produced for a jobs to housing ratio of 9.5. Though job creation and housing production do

[1] San Francisco area refers to the City and County of San Francisco and San Mateo County, since the data reported by the State Employment Development Department (EDD), combines information from both counties. We estimate that the City and County of San Francisco accounts for approximately 64 percent of all jobs in the two jurisdictions and that the composition of those jobs does not vary significantly.

not necessarily occur in unison, to achieve the 2018 1.9 jobs to housing ratio presented in Exhibit B for that three year period would have required production of 14,498 units affordable for low- and moderate-income households, or 11,585 more than actually produced.

- Wage growth has not kept pace with the increases in housing costs in San Francisco. A four-person household that could afford to purchase a median priced home had to have an income of at least 137% of the area median income (AMI) in 2010 and 197% of the AMI in 2019.

**Exhibit C: Household Income Needed to Rent or Buy at Median Prices, 2010 and 2019**

| | 2010 | 2019 |
|---|---|---|
| Median Rent | $3,300 | $4,500 |
| Household Income Needed | $132,000 | $180,000 |
| % AMI for 4-Person Household | 133% | 146% |
| Median Sale | $703,000 | $1,300,000 |
| Household Income Needed | $135,720 | $243,040 |
| % AMI for 4-Person Household | 137% | 197% |

- Although the increase in market rate housing prices has outpaced wage growth since 2010, the median percent of income that San Francisco households spend on rent has not changed substantially.
- The City applies a Jobs-Housing Linkage fee to non-residential development based on size and type of development. Between FY 2009-10 and FY 2018-19, the City collected $89.2 million in Jobs-Housing Linkage fees for the Citywide Affordable Housing Fund administered by the Mayor's Office of Housing and Community Development (MOHCD). Over this period, MOHCD spent approximately one-third, or approximately $30.2 million of the funds collected.
- As of the end of FY 2018-19, MOHCD also committed to spending an additional $63.7 million in Jobs-Housing Linkage fee funds.
- Based on the State-defined Regional Housing Need Allocation goals set in 2015 for San Francisco for 2015-2022, as of 2018 San Francisco has produced 96% of the housing target goal for high-income households but only 39% of the target for low-income households and 15% of the target for moderate-income households.
- The number of jobs in the San Francisco area is projected to increase by 126,950, or 11%, between 2016 and 2026 according to the California Employment Development Department. High-wage jobs are projected to increase by 14%, the highest rate of all jobs categories, but low-wage jobs are projected to increase by 11%, nearly keeping pace with high wage jobs. Moderate-wage jobs are projected to increase by 5%.

- The top five fastest growing occupations projected by the State Employment Development Department for 2016-2026 account for 33,000 of the 126,950 projected new jobs. Only one of these occupations, software developer, with 12,410 new jobs projected, falls within the high-wage category. The 20,590 other fastest growing occupations are all low wage.
- The City and County of San Francisco needs to add 34,664 housing units between 2019 and 2026 to match projected employment growth with housing needs.

**Exhibit D: Projected Jobs by Wage Level, Estimate for San Francisco County Only, 2016-2026**

| Wage Level | 2016 Employment | 2026 Employment | Change | Housing Needed | Housing Constructed 2016-2018 | % Housing Needed | Housing Needed 2019-2026 |
|---|---|---|---|---|---|---|---|
| Low-wage | 275,868 | 307,586 | 31,718 | 18,229 | 974 | 5.3% | 17,255 |
| Moderate-wage | 190,750 | 200,018 | 9,267 | 5,326 | 1,939 | 36.4% | 3,387 |
| High-wage | 291,089 | 331,466 | 40,377 | 23,205 | 9,183 | 40.0% | 14,022 |
| **Total** | **757,707** | **839,069** | **81,362** | **46,760** | **12,096** | **25.9%** | **34,664** |

- Based on the number and types of housing in the development pipeline in San Francisco as of the second quarter of 2018, there will continue to be a shortage of housing units for low-income households while there will be enough housing constructed for the projected growth in high-income households.

**Exhibit E: Difference between Housing Units in the Pipeline as of 2018 and Projected Housing Needed by Income Level through 2026, San Francisco**

| Income Level | Housing Needed | Total Entitled | Difference |
|---|---|---|---|
| Low income | 17,255 | 1,626 | 15,629 |
| Moderate income | 3,387 | 577 | 2,810 |
| High income | 14,022 | 18,627 | -4,605 |
| **Total** | **34,664** | **20,830** | **13,834** |

- More recent pipeline data from the Planning Department shows that some progress is being made in closing the housing gap identified above for low and moderate income housing, We estimate that the gap as the second quarter of 2019 to be approximately 9,327 units.
- The estimated housing deficiencies do not include deficits in affordable housing incurred through 2018, such as the estimated

## Policy Options

The Board of Supervisors could:

1. Request the Planning Department to prepare annual projections of new jobs for San Francisco, by income segment, and new affordable housing completed and in the pipeline to identify any gap between employment projections and new housing.
2. Request that MOHCD track new housing to be funded by Jobs-Housing Linkage fee revenue by income segment and report to the Board of Supervisors annually on new affordable housing completed and in the pipeline by income segment.

## Jobs-Housing Fit: Historical Data

### Population Growth and Income

- *The population of San Francisco grew approximately 10.4 percent between 2010 and 2018, from 805,235 to 889,305. During the same time, the number of housing units in San Francisco increased by only 24,671 adding 311.8 housing units for every 1,000 new residents. This was substantially less than the 468 housing units for every 1,000 residents in place in 2010, indicating a reduction in housing unit production relative to population.*
- *In addition to a reduction in new housing relative to population, the number of higher income households grew by 60,771 between 2010 and 2017 and then accounted for 55 percent of all households, as compared to 41 percent in 2010. During the same period, the number of moderate- and low-income households declined by 37,955 and then made up 13 and 31 percent of all households, respectively, as compared to 16 and 44 percent in 2010. These factors combined have contributed to increased housing costs in San Francisco, particularly for low and moderate wage households.*

**Household Income Levels**

This report uses the following definitions for household income levels, where AMI refers to area median income:

- Low income: Less than 80% AMI
- Moderate income: 80-120% AMI
- High income: More than 120% AMI.

A review of household incomes during the same years shows that this growth did not occur equally across income levels. Table 1 shows that the number of low-wage households, defined as those earning less than 80 percent of the area median income (AMI), and moderate-wage households, defined as those earning between 80-120 percent of AMI, both declined. At the same time, high-income households, defined as those earning more than 120 percent of AMI, increased by 44 percent.

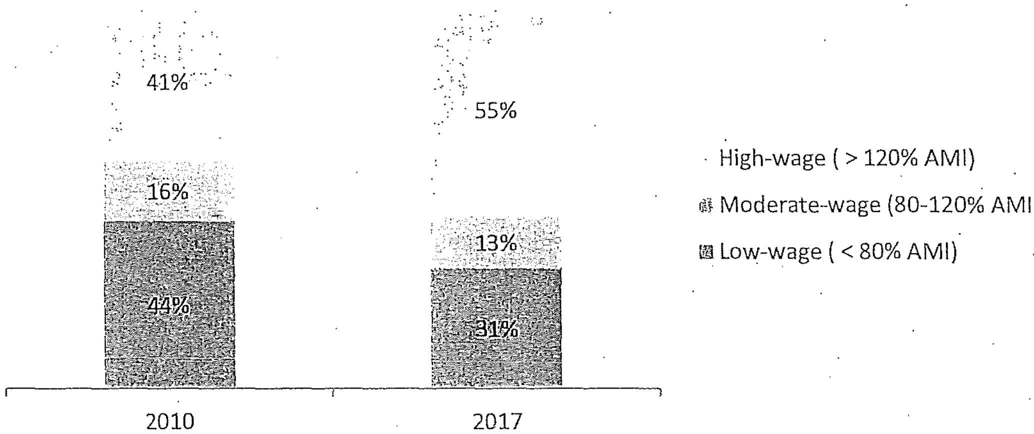
**Table 1: Changes in Households by Income in San Francisco, 2010 and 2017**

| Household Income Level | 2010 | 2017 | Change | % Change |
|---|---|---|---|---|
| Low-income ( < 80% AMI) | 146,152 | 112,186 | (33,966) | (23%) |
| Moderate-income (80-120% AMI) | 52,117 | 48,128 | (3,989) | (8%) |
| High-income( > 120% AMI) | 137,687 | 198,458 | 60,771 | 44% |
| Total households | 335,956 | 358,772 | 22,816 | 7% |
| Median income ($) | $71,304 | $96,265 | | 35% |

Sources: IPUMS USA: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2019. Mayor's Office of Housing and Community Development, Maximum Income by Household Size, 2010 and 2017.

As shown in Figure 1 below, low-income households made up approximately 44 percent of San Francisco households in 2010. In 2017, these households decreased to approximately 31 percent of all households. Moderate-income households also decreased from 16 percent to 13 percent of the total share of households. The largest increase occurred in high-income households: these households made up 55 percent of San Francisco households in 2017, up from 41 percent in 2010.

**Figure 1: Households by Wage Level in San Francisco, 2010 and 2017**




Sources: IPUMS USA: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2019. Mayor's Office of Housing and Community Development, Maximum Income by Household Size, 2010 and 2017.

The average household size by wage level remained steady over this period, with an average of 2.0 persons in low-wage households, 2.4 persons in moderate-wage households, and 2.2 persons in high-wage households in both 2010 and 2017.

## Changes in Jobs, Wages, and Occupations

Total jobs in San Francisco increased from 550,300 in 2010 to 760,300 in 2018, an increase of 210,000, or 38.2 percent, according to the California Employment Development Department. As with the changes in household income presented above, job growth during those years was not evenly distributed across income groups. Jobs in high-wage industries grew the most between 2016 and 2018, with jobs in low-wage jobs close behind. Jobs in moderate-wage industries remained essentially the same.

### Jobs Data

Between just 2016 and 2018, the metropolitan division of San Francisco, Redwood City, and South San Francisco (San Francisco and San Mateo counties) experienced a 9.5 percent increase in jobs, from 1,020,030 in 2016 to 1,116,390 in 2018, an increase of 96,360 jobs. Over the same period, the median annual salary increased by 5.1 percent, from $55,765 to $58,594, or from $26.81 to $28.17 hourly. Table 2 below summarizes employment and wages between 2016 and 2018.[2] As explained above, data before 2016 could not be used because it includes Marin County in addition to San Francisco and San Mateo counties. From 2016 and thereafter, EDD discontinued including Marin County data with San Francisco and San Mateo county data.

**Jobs Data Used**

The California Employment Development Department (EDD) reports job, wage, and occupation data for San Francisco and San Mateo counties combined. While the inclusion of San Mateo County data could potentially skew the statistics to some degree, we conclude that the general trends and changes in the two counties are similar overall and that because San Francisco has more than half the jobs in the two counties, its changes have more impact on the reported totals than San Mateo County.

Another limitation of the EDD data is that until 2016, San Francisco and San Mateo County data was aggregated with data from Marin County. Since then, Marin County data is no longer included but this change renders comparisons of years prior to 2016 not meaningful.

Even with these limitations, we believe the EDD data still presents a useful picture of changes in jobs, wages, and occupations in San Francisco for the years between 2016 and 2018. The Planning Department reports it has access to data from EDD that provides details on jobs in just San Francisco, but this data is not made publically available by EDD and is subject to certain restrictions in use.

[2] We have presented data for the metropolitan division consisting of the City and County of San Francisco and San Mateo County as data for San Francisco County only with this level of wage detail is not publicly available.

**Table 2: Jobs and Median Wages for All Occupations, 2016-2018, San Francisco-Redwood City-South San Francisco Metropolitan Division**

| | 2016 | 2018 | Change | % Change |
|---|---|---|---|---|
| Total Jobs | 1,020,030 | 1,116,390 | 96,360 | 9.5% |
| Median Annual Salary | $55,765 | $58,594 | $2,829 | 5.1% |
| Median Hourly Wage | $26.81 | $28.17 | $1.36 | 5.1% |

Source: CA Employment Development Department, Occupational Employment Statistics and Wages, 2016 and 2018.

Table 3 below shows the share of low, moderate, and high-wage jobs in the San Francisco-Redwood City-South San Francisco area. Consistent with the changes in household income distribution between 2010 and 2017 described above, Table 3 shows that high-wage jobs increased by 14 percent in San Francisco and San Mateo counties between 2016 and 2018. Higher income households also assumed a greater share of San Francisco's housing, as shown in Figure 1 above, between 2010 and 2017, increasing from 41 to 55 percent of all households.

While low-wage jobs increased by 11 percent between 2016 and 2018, low-income households decreased as a share of total households in San Francisco between 2010 and 2017, also shown in Figure 1 above.

Moderate-wage jobs decreased only slightly, by 0.1 percent, between 2016 and 2018, though moderate-income households decreased from 16 to 13 percent of all households between 2010 and 2017. In short, while there were increases or no appreciable changes in low- and moderate-wage jobs between 2016 and 2018, more jobholders in those income classes appear to have left the City, replaced by high-wage workers.

**Table 3: Jobs by Wage Level, 2016-2018, San Francisco-Redwood City-South San Francisco Metropolitan Division**

| Wage Level | 2016 | % Total Jobs | 2018 | % Total Jobs | Change | % Change |
|---|---|---|---|---|---|---|
| Low-wage ( < 80% of AMI) | 379,940 | 37.2% | 423,330 | 37.9% | 43,390 | 11% |
| Moderate-wage (80-120% of AMI) | 268,100 | 26.3% | 267,750 | 24.0% | -350 | -0.1% |
| High-wage ( > 120% of AMI) | 371,990 | 36.5% | 425,310 | 38.1% | 53,320 | 14% |
| **Total Jobs** | **1,020,300** | **100.0%** | **1,116,390** | **100.0%** | **96,360** | **9%** |

Source: CA Employment Development Department, Occupational Employment Statistics and Wages, 2016 and 2018.
Note: The median hourly wage in 2010 was $26.81 and $28.17 in 2018.

The share of low-wage jobs increased slightly from 37.2 to 37.9 percent while the share of high-wage jobs increased from 36.5 to 38.1 percent of all jobs. The share of moderate-wage jobs declined to 24.0 percent from 26.3 percent of all jobs in 2016.

Table 4 shows employment figures and hourly wages for each industry category in the San Francisco-Redwood City-South San Francisco Metropolitan Division by earnings in 2016 and 2018. As shown, all groups experienced increases in wages between 2016 and 2018.

The occupation categories that experienced the largest increase in number of jobs include: from the low-wage sector, Personal Care and Service occupations, with 26,060 new jobs, an increase of 91 percent, and, from the high-wage sector, Business and Financial Operations occupations with 16,810 new jobs, an 18 percent increase, and Computer and Mathematical occupations with 13,190 new jobs, an increase of 16 percent. While wages for the high-wage Business and Financial Operations occupations and Computer and Mathematical occupations increased by one percent and nine percent, respectively, between 2016 and 2018, wages for low-wage Personal Care and Service occupations decreased by six percent during that period. All other low-wage industries experienced increases in wages expect protective services.

Table 4: Employment Changes and Median Hourly Wages, 2016-2018, San Francisco-Redwood City-South San Francisco Metropolitan Division

| Industry Category | 2016 Employment | 2018 Employment | Change | % Change | 2016 Median Hourly Wage | 2018 Median Hourly Wage | % Change |
|---|---|---|---|---|---|---|---|
| All industries | 1,020,030 | 1,116,390 | 96,360 | 9% | $26.81 | $28.17 | 5% |
| **High-wage industries** | **371,990** | **425,310** | **53,320** | **14%** | **$52.61** | **$54.90** | **4%** |
| Management | 79,830 | 90,630 | 10,800 | 14% | $69.46 | $72.66 | 5% |
| Legal | 14,480 | 15,750 | 1,270 | 9% | $62.73 | $68.68 | 9% |
| Computer and Mathematical | 80,480 | 93,670 | 13,190 | 16% | $53.56 | $58.61 | 9% |
| Healthcare Practitioners and Technical | 36,590 | 43,870 | 7,280 | 20% | $53.98 | $54.93 | 2% |
| Architecture, Engineering | 22,040 | 23,940 | 1,900 | 9% | $48.41 | $49.95 | 3% |
| Business, Financial Operations | 91,930 | 108,740 | 16,810 | 18% | $43.13 | $43.60 | 1% |
| Life, Physical, Social Science | 21,430 | 19,210 | -2,220 | -10% | $45.95 | $43.25 | -6% |
| Arts, Design, Entertainment, Sports, Media | 25,210 | 29,500 | 4,290 | 17% | $32.34 | $34.46 | 7% |
| **Moderate-wage industries** | **268,100** | **267,750** | **-350** | **0%** | **$24.88** | **$27.46** | **9%** |
| Construction and Extraction | 29,930 | 31,880 | 1,950 | 7% | $31.14 | $30.11 | -3% |
| Installation, Maintenance, Repair | 22,830 | 24,740 | 1,910 | 8% | $28.77 | $29.09 | 1% |
| Education, Training, Library | 45,000 | 44,140 | -860 | -2% | $27.50 | $27.97 | 2% |
| Community, Social Services | 12,990 | 15,170 | 2,180 | 17% | $23.54 | $26.44 | 12% |
| Office and Admin. Support | 157,350 | 151,820 | -5,530 | -4% | $22.48 | $23.67 | 5% |
| **Low-wage industries** | **379,940** | **423,330** | **43,390** | **11%** | **$16.19** | **$18.00** | **7%** |
| Healthcare Support | 15,690 | 14,880 | -810 | -5% | $18.71 | $22.77 | 22% |
| Protective Service | 21,920 | 23,560 | 1,640 | 7% | $21.13 | $20.01 | -5% |
| Sales and Related | 98,750 | 98,110 | -640 | -1% | $18.32 | $19.60 | 7% |
| Transportation, Material Moving | 52,250 | 61,770 | 9,520 | 18% | $17.17 | $19.43 | 13% |
| Production | 24,290 | 25,170 | 880 | 4% | $18.12 | $18.57 | 2% |
| Building and Grounds Cleaning and Maintenance | 37,480 | 36,630 | -850 | -2% | $15.00 | $17.09 | 14% |
| Farming, Fishing, and Forestry | 370 | 700 | 330 | 89% | $14.84 | $15.04 | 1% |
| Food Preparation, Serving-Related | 100,400 | 107,660 | 7,260 | 7% | $12.68 | $14.74 | 16% |
| Personal Care and Service | 28,790 | 54,850 | 26,060 | 91% | $14.13 | $13.29 | -6% |

Source: CA Employment Development Department, Occupational Employment Statistics and Wages, 2016 and 2018.

## Housing Production

- *Between 2010 and 2018, the number of housing units in San Francisco increased 6.5 percent from 376,942 to 401,613, or by 24,671 units. This increase represents a reduction in housing units relative to jobs during that time, placing upward pressure on housing prices.*

The Planning Department reports that 24,671 housing units were added to the housing stock in San Francisco between 2010 and 2018. This level of housing production did not keep pace with the City's housing inventory relative to the number of new jobs created during that period. There were 210,000 new jobs created in San Francisco between 2010 and 2018, but only 24,671 housing units added during that period.

As shown in Table 5, this represents a major reduction in housing units per job, with 8.5 new jobs created for every housing unit between 2010 and 2018 as compared to 1.9 housing units per job in place in 2018 and 1.5 housing units per job in 2010. Since household size has not increased over the 2010 to 2018 time period, this indicates that a smaller share of workers are living in San Francisco compared to the number of jobs in the City. Given the change in the distribution of household income shown above in Figure 1, it appears that a greater share of workers with low and moderate wage jobs are not living in the City.

**Table 5: Reduction in Housing Production Relative to Job Growth in San Francisco, 2010-2018**

| | 2010 | 2018 | 2010-2018 |
|---|---|---|---|
| Jobs | 550,300 | 760,300 | 210,000 |
| Housing Units | 376,942 | 401,613 | 24,671 |
| Jobs/Housing Unit | 1.5 | 1.9 | 8.5 |

Sources: CA Employment Development Department, Current Employment Statistics – San Francisco County, December 2010 and December 2018. SF Planning, Housing Inventory 2018, p.34.

The jobs to housing unit ratio accounts for the fact that not all of the individuals in the new jobs will choose to live in San Francisco, that households often have more than one worker, and that some households have no workers. This is why the ratio is greater than one; a housing unit is not needed for every job. It should also be noted that the creation of every 1.9 new jobs does not necessarily translate to a need for a new housing unit. Specifically, some of the new jobs during the 2010 to 2018 period were likely taken by existing City residents that may have lost their jobs during the recession starting in 2008. However, any lost jobs from the recession have now been more than replaced and many of the reported new jobs now represent a net gain since the recession and thus reflect a need for new housing to keep up with the existing jobs-housing relationship.

## Housing Prices

- *Reflecting the impact of reduced housing production, housing prices in San Francisco have increased significantly in the last nine years with disproportionate impacts on low- and moderate-income households. In 2017, more than 75 percent of households making less than $35,000 were housing cost-burdened[3]. In the same year, only 11% of households making over $100,000 were cost-burdened.*

The median sale price for homes in San Francisco increased from $703,000 in January 2010 to $1.3 million in January 2019, or by 85%. Rent listings for a two-bedroom apartment increased between 2010 and 2019 from $3,300 to $4,500, or by 36%.[4] Wage growth has not kept pace with the increases in housing costs in San Francisco. Table 6 provides the household income needed to rent or buy a home at the median price in 2010 and 2019. A four-person household that could afford to purchase a median priced home in 2010 had to have an income of at least 137% of the AMI. To purchase a median priced home in 2019, that same household would need an income of at least 197% of the AMI.

**Table 6: Household Income Needed to Rent or Buy at Median Prices, 2010 and 2019**

| | 2010 | 2019 |
|---|---|---|
| Median Rent | $3,300 | $4,500 |
| Household Income Needed | $132,000 | $180,000 |
| % AMI for 4-Person Household | 133% | 146% |
| Median Sale | $703,000 | $1,300,000 |
| Household Income Needed | $135,720 | $243,040 |
| % AMI for 4-Person Household | 137% | 197% |

Source: Zillow, San Francisco Home Prices and Values, https://www.zillow.com/san-francisco-ca/home-values

Note: This estimate assumes a down payment of 20% and a mortgage payment (including principal and interest payments, property taxes, and homeowners insurance) at an interest rate of 4% over a 30-year fixed loan term.

The U.S. Department of Housing and Urban Development (HUD) considers households to be cost-burdened if they pay more than 30% of their income for housing. As shown in Table 7, in 2017, more than 62% of households making less than $50,000 were cost-burdened. For households making less than $35,000, over 75% of households were cost-burdened. In the same period, only 11% of households making over $100,000 were cost-burdened.

[3] Paying more than 30 percent of their gross income on housing.
[4] Zillow, San Francisco Home Prices and Values, https://www.zillow.com/san-francisco-ca/home-values/

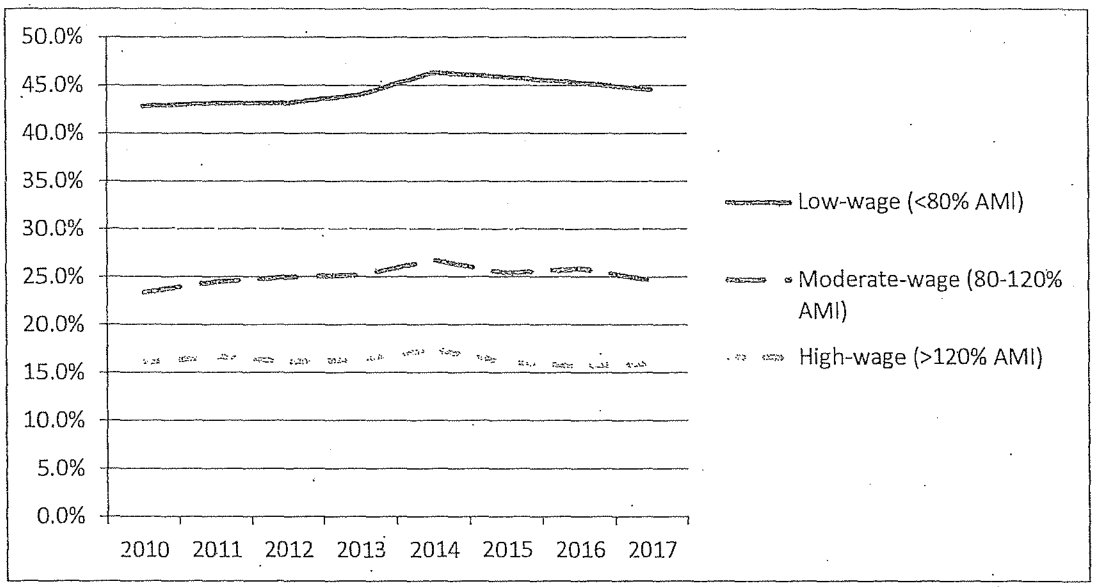
**Table 7: Percent of Households Cost-Burdened by Housing Expenses by Income Level, San Francisco County, 2017**

| Household Income | Percent Cost-Burdened |
|---|---|
| Less than $10,000 | 94% |
| $10,000 to $20,000 | 76% |
| $20,000 to $35,000 | 75% |
| $35,000 to $50,000 | 62% |
| $50,000 to $75,000 | 48% |
| $75,000 to $100,000 | 38% |
| More than $100,000 | 11% |

Source: Metropolitan Transportation Commission, Vital Signs: Housing Affordability, County by Income, updated January 14, 2019.

Although the increase in market rate housing prices has outpaced wage growth since 2010, the median percent of income that San Francisco households spend on rent has not changed substantially, as shown in Figure 2. Between 2010 and 2017, the median low-wage household spent 42.8% of their gross income on rent, which increased slightly to 44.3% of income spent on rent in 2017. For moderate-wage households, the amounts increased slightly from 23.5% in 2010 to 24.7% in 2017, and for high-wage households the amount remained at 16.0% in 2010 and 2017. This could be the impact of rent control on many households in San Francisco, which prevents some households from experiencing the rent burden that they would experience if facing market rate housing.

Figure 2: Percent of Household Income Spent on Rent, 2010-2017




Sources: IPUMS USA: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2019. Mayor's Office of Housing and Community Development, Maximum Income by Household Size, 2010 and 2017.

### Affordable Housing

- *Of the 24,671 new housing units added in San Francisco between 2010 and 2018, 6,224 were affordable for low- and moderate-income households, or those making up to 120 percent of AMI.*
- *For just 2016 through 2018, 2,913 affordable units were constructed, but an estimated 27,546 low and moderate income jobs were created in San Francisco, resulting in a jobs-to-housing ratio of 9.5. To achieve San Francisco's 2018 jobs to housing ratio of 1.9, 14,498 housing units affordable for low- and moderate-income households would have needed to be produced, or 11,585 more than was produced.*

Affordable housing is housing that is rented or owned at prices affordable to households with low to moderate incomes. HUD determines the thresholds by household size for these incomes for the San Francisco HUD Metro Fair Market Rent Area. In 2019, the AMI for a four-person household in the San Francisco area was $123,150.[5]

In 2018, 645 affordable units were completed through programs overseen by the San Francisco Mayor's Office of Housing and Community Development (MOHCD), representing 24 percent of the new housing units added in 2018. The number of affordable units built in 2018 (645) is 23 percent lower than the five-year average of 840 affordable housing units built and 56% less than the 1,466 in 2017. Table 8 below shows

[5] Mayor's Office of Housing and Community Development, Maximum Income by Household Size, 2019.

the number of units built by income level over time and Table 9 shows the housing types constructed.

Table 8: New Affordable Housing Construction by Income Level, 2010-2018

| Year | Low (< 80% AMI) | Moderate (80-120% AMI) | Total Affordable Units | Total All New Units | % of All New Units |
|---|---|---|---|---|---|
| 2010 | 501 | 81 | **582** | 1,438 | 40% |
| 2011 | 140 | 78 | **218** | 418 | 52% |
| 2012 | 357 | 156 | **513** | 1,471 | 35% |
| 2013 | 448 | 264 | **712** | 2,499 | 28% |
| 2014 | 149 | 608 | **757** | 3,654 | 21% |
| 2015 | 213 | 316 | **529** | 3,095 | 17% |
| 2016 | 248 | 554 | **802** | 4,895 | 16% |
| 2017 | 686 | 780 | **1,466** | 4,511 | 32% |
| 2018 | 40 | 605 | **645** | 2,690 | 24% |
| **Total** | **2,782** | **3,442** | **6,224** | **24,671** | **25%** |

Source: SF Planning, Housing Inventory 2014, p.32, and Housing Inventory 2018, p.34.

Table 9: New Affordable Housing Construction by Housing Type, 2010-2018

| Year | Family | Senior | Individual/SRO | Homeowner | Other | Total |
|---|---|---|---|---|---|---|
| 2010 | 128 | 348 | 59 | 47 | - | 582 |
| 2011 | 67 | - | 140 | 11 | - | 218 |
| 2012 | 157 | - | 269 | 87 | - | 513 |
| 2013 | 432 | 100 | 164 | 16 | - | 712 |
| 2014 | 536 | 90 | 3 | 128 | - | 757 |
| 2015 | 282 | - | - | 194 | 53 | 529 |
| 2016 | 452 | 147 | 20 | 118 | 65 | 802 |
| 2017 | 1,116 | 39 | 55 | 157 | 99 | 1,466 |
| 2018 | 434 | - | 19 | 51 | 141 | 645 |
| **Total** | **3,604** | **724** | **729** | **809** | **358** | **6,224** |
| % of Total | **58%** | **12%** | **12%** | **13%** | **6%** | **100%** |

Source: SF Planning, Housing Inventory 2014, p.32, and Housing Inventory 2018, p.34.
Note: The category "Other" signifies the units that are considered secondary units or ADUs and are not income-restricted.

Using EDD jobs data presented above, we estimate that 27,546 jobs low- and moderate-wage jobs were created in San Francisco for just 2016 through 2018. During that same time, 2,913 affordable housing units were constructed, as shown in Table 8 above, resulting in in a jobs-to-housing ratio of 9.5. To achieve San Francisco's 2018 jobs to housing ratio of 1.9 reported above in Table 5, 14,498 housing affordable housing units for low- and moderate-income households would have to have been produced, or 11,585 more than was produced.

While housing production and job creation do not occur in perfect unison year by year, the estimated 11,585 affordable housing unit deficit above indicates that San Francisco has an affordable housing deficit that needs to be addressed in addition to considering low- and moderate-income jobs that will be created in the future, as discussed further below.

## Jobs-Housing Linkage Fee

- *The City has various development impact fees in place to generate funds for affordable housing. The Jobs-Housing Linkage fee is applied to non-residential development based on size and type of development (office, retail, etc.).*
- *Between FY 2009-10 and FY 2018-19, the City collected $89.2 million in Jobs-Housing Linkage fee revenue, or an average of $8.9 million per year. Over this period, MOHCD spent approximately one-third, or $30.2 million of the Jobs-Housing Linkage fee funds collected, an average of approximately $3.0 million per year.*
- *MOHCD also reports it was committed to spending an additional $63.7 million in Jobs-Housing Linkage fee funds as of the end of FY 2018-19. This is based on available fund balance and expected future fee revenue that will be used for future affordable housing construction projects over the next two years.*

MOHCD is responsible for administering the Citywide Affordable Housing Fund, which is used to increase the supply of housing affordable to qualifying households. A variety of development impact fee revenues are deposited into the Citywide Affordable Housing Fund[6] including revenue from the Jobs-Housing Linkage fee, the Inclusionary Affordable Housing fee, the Eastern Neighborhoods Area Plan Affordable Housing fee, the Van Ness and Market Downtown Residential Special Use District Affordable Housing fee, bond proceeds, and the Market and Octavia and Upper Market Neighborhood Commercial District Affordable Housing fee. MOHCD uses the Citywide Affordable Housing Fund, along with funding from federal and state agencies and private investors, to finance the development, rehabilitation, and purchase of affordable housing.

The Jobs-Housing Linkage fee is based on the development of non-residential workplace buildings, in contrast with other affordable housing fees that are based on residential development. The purpose of the Jobs-Housing Linkage fee is to mitigate the impact of development of new non-residential buildings and the employees that work in them on the demand for affordable housing.

[6] The Citywide Affordable Housing Fund has other sources of revenue in addition to fees, such as loan repayments and gift deposits.

## Nexus Study: Basis of Jobs-Housing Linkage Fees

The basis of the Jobs-Housing Linkage fee is the jobs-housing nexus analysis prepared by a consultant to the City that documents and quantifies the impact of the development of non-residential buildings on the demand for housing. The State's Mitigation Fee Act requires that all development impact fees be supported by nexus analyses that demonstrate the link between the fee amount charged and the impact of the development. [7] The City's most recent nexus study was prepared by a consultant to the Office of Economic and Workforce Development and issued in May 2019.[8]

The 2019 nexus study identifies the demand for low and moderate income housing that will be generated by these types of non-residential development:

- Office
- Research and development
- Retail
- Entertainment
- Hotel
- Production, Distribution, and Repair
- Medical
- Institutional (educational, government, cultural, religious)

The nexus study identifies the number of workers that are expected to be working in new non-residential buildings by the types listed above, breaking out the workers by the following four income segments:

1. extremely low income: under 30% of AMI
2. very low: 30 – under 50% of AMI
3. low: 50 – under 80 % of AMI
4. moderate: 80 – 120% of AMI

Average employment densities are developed by the nexus study consultant for each building type based on various sources including the Planning Department's Land Use Allocation Model, analyses prepared by the Institute of Transportation Engineers and the Association of Bay Area Governments, environmental impact reports, other separate analyses prepared by the nexus study consultant, and other sources. Average employment densities are expressed as number of employees per square foot such as 238 square feet per employee on average for office buildings.

[7] California Government Code Sect. 66000.
[8] *Jobs Housing Nexus Analysis*, Keyser Marston Associates, May 2019.

Average incomes for workers by building type and workers per household are calculated in the nexus study based on U.S. Census Bureau American Community Survey data. Through these calculations, the study identifies the number of housing units needed for the new households that will be established in San Francisco due to the new building. These calculations identify the number of extremely low, very low, low, and moderate income households that will be established based on the likely incomes for the mix of jobs in the new building. For example, for office, the nexus study reports that 33.5 percent of the new worker households will earn low or moderate wages. For a retail development, the percentage low and moderate income workers is assumed to be 65.4 percent, or nearly double the 33.5 percent level for office buildings.

The nexus study produces affordable unit demand factors for the eight non-residential building types, or number of housing units needed per 1,000 square feet of gross floor area in the new buildings. These factors are then multiplied by the amount the City elects to charge to subsidize each unit of affordable housing to determine fee levels for each type of non-residential development. The nexus study itself does not provide the results of such calculations. The fees are set by the Board of Supervisors, in some cases with input provided by the Planning Commission.

The Planning Department advises that the fees are based on a combination of target subsidy levels needed per unit of affordable housing combined with an assessment of what amount can be added to development costs through the Jobs-Housing Linkage fee before projects become financially unfeasible for developers. A financial feasibility analysis was produced in 2019 for office development.

The Jobs-Housing Linkage fee applies to projects with at least 25,000 gross square feet of entertainment, hotel, office, research and development, retail, production, distribution, and repair (PDR), or small enterprise workspace uses. Though included in the nexus analysis, no fees have been established for institutional and medical development or Production, Distribution and Repair.

The fees by type of commercial use as of August 2019 are shown in Table 10 below. The fees are indexed on the annual percent change in the Construction Cost Index for San Francisco as published by Engineering News-Record.

**Table 10: Jobs-Housing Linkage Fees, 2019**

| Use | Amount per Square Foot |
|---|---|
| Office | $28.57 |
| Retail | $26.66 |
| Entertainment | $26.66 |
| PDR | $22.46 |
| Small Enterprise Workspace | $22.46 |
| Hotel | $21.39 |
| Research and Development | $19.04 |

Source: SF Planning, Master Impact Fee Schedule 2019.

Over the ten-year period between FY 2009-10 and FY 2018-19, the City collected a total of $89,198,633 in Jobs-Housing Linkage fee revenue, or an average of $8,919,863 per year, as shown in Table 11 below. Over this period, MOHCD spent approximately $30,197,636, or approximately one-third of the funds from the Jobs-Housing Linkage fee, for an average of $3,019,764 per year. MOHCD reports that $19,325,778 of these funds were expended to partially finance 527 units of affordable housing for formerly homeless adults, low-income families, seniors, transition-age youth, and middle-income families.

MOHCD reports that it has also committed and encumbered, but not yet expended, $63,656,874 in Jobs-Housing Linkage fee funding to partially finance 543 units of affordable housing as of June 30, 2019. These funds represent available fund balance and expected Jobs-Housing Linkage fee revenue to be collected in future years based on anticipated development projects. These units are expected to be completed and occupied by mid-2021 and include the projects at 88 Broadway, 490 South Van Ness, 1950 Missions, and 17th and Folsom. Due to the method of assembling project financing, there is not a direct connection between this unit count and the number of affordable housing units determined to be needed by the Jobs-Housing Linkage fee calculations.

Based on the available data about projects funded between FY 2009-10 and FY 2015-16, MOHCD reports that the average subsidy from the Jobs-Housing Linkage fee amounted to $36,671 per unit. As mentioned above, for MOHCD affordable housing projects, Jobs-Housing Linkage Fee funding is typically combined with other funding sources to subsidize the cost of acquiring or developing affordable housing. Among completed projects that received Jobs-Housing Linkage fee funding between FY 2009-10 and FY 2015-16, Jobs-Housing Linkage fee funding represented an average of 40 percent of the total City subsidy for acquiring or developing the affordable housing project. The total City subsidy is higher because Jobs-Housing Linkage fee funds are typically combined with other City sources such as other Inclusionary Housing fees, bond proceeds, or other sources. According to MOHCD, the total development cost of recently completed housing projects averages $89,365,370, of which an average of $27,401,819, or 31 percent, is City subsidy.

Jobs-Housing Linkage fee collections and expenditures vary widely from year to year. For example, no fee revenue was collected in FYs 2008-09 through 2010-11, and a high of $30,198,421 was collected in FY 2015-16. Expenditures ranged from $0 in FY 2011-12 and FY 2012-13 to an estimated $9,249,025 in FY 2018-19.

Table 11: Jobs-Housing Linkage Fee Summary, FY 2010-11 through FY 2018-19

| Fiscal Year | Fee Revenue Collected | Funds Expended | Housing Units Funded [b] | Funds Committed [c] | Housing Units Committed |
|---|---|---|---|---|---|
| FY 2009-10 | $(8,775) | $1,012,000 | - | | |
| FY 2010-11 | 15,878 | 4,581,613 | 199 | | |
| FY 2011-12 | 567,229 | - | - | | |
| FY 2012-13 | 5,678,329 | - | - | | |
| FY 2013-14 | 11,974,893 | 9,290,000 | 71 | | |
| FY 2014-15 | 8,918,731 | 450,000 | 72 | | |
| FY 2015-16 | 30,198,421 | 3,992,165 | 185 | | |
| FY 2016-17 | 16,075,251 | 1,440,991 [a] | [a] | | |
| FY 2017-18 | 3,036,705 | 181,842 [a] | [a] | | |
| FY 2018-19 | 12,741,971 | 9,249,025 [a] | [a] | 63,656,874 | 543 |
| **Total** | **$89,198,633** | **$30,197,636** | **527** [a] | **$63,656,874** | **543** |
| **Annual Average** | **$8,919,863** | **$3,019,764** | [a] | | |
| **Average Subsidy** | | | **$36,671** [d] | | **$117,232** |

Sources: Controller's Office, FY 2014-15 & FY 2015-16 Biennial Development Impact Fee Report, December 30, 2016; MOHCD.

[a] The Controller's Office is in the process of preparing the Development Impact Fee Report for FY 2016-17 through FY 2018-19. These figures are estimates prepared by MOHCD and are subject to change upon verification by the Controller's Office. The number of units funded by expenditures in FY 2016-17 through FY 2018-19 was not available by the date of this report.

[b] The Jobs-Housing Linkage fee is typically one of multiple funding sources for each affordable housing project in which it is used. Therefore, the units shown were partially funded by the Jobs-Housing Linkage fee.

[c] Represents funds committed and encumbered for specific projects but not yet expended or disbursed. The Jobs-Housing Linkage fee is typically one of multiple funding sources for each affordable housing project in which it is used. Therefore, the units shown were partially funded by the Jobs-Housing Linkage fee.

[d] Average subsidy based on the seven years (FY 2009-10 through FY 2015-16) for which there is available data.

While the Jobs-Housing Linkage fees are designed to generate revenues for specific numbers of housing units in the four income segments identified above – extremely low, very low, low, and moderate – MOHCD does not program its funding or track its development of affordable housing by those income categories to ensure that the number of affordable housing units built is consistent on a one-for-one basis with the Jobs-Hosing Linkage fees generated. Instead, MOHCD assembles funding from different sources, including Jobs-Housing Linkage fees, and acquires properties or works with developers that have acquired properties where development of affordable housing is feasible.

Though a one for one relationship between fee revenue and affordable housing generation cannot be made for a single year or even a few years given the long lead time of some affordable housing projects, the 527 affordable housing units developed by MOHCD between FY 2009-10 and 2015-16 was far less than the need stemming from non-residential development during that time. While the Planning Department reports that 6,224 affordable housing units were built during that period in the City, or substantially more than those subsidized by Jobs-Housing Linkage fees, 5,697 of those units were funded by sources other than Jobs-Housing Linkage fees (6,224 units built less 527 subsidized by Jobs-Housing Linkage fees = 5,696 units).

For the approximately 5.8 million square feet of office space added in San Francisco between 2010 and 2018, the Jobs-Housing Linkage fee alone should have resulted in development of approximately 4,692 low and moderate income housing units, based on the assumed 238 square feet per worker in office developments and the 33.5 percent rate of low and moderate income jobs in office developments according to the nexus study. However, as reported above, only 527 affordable housing units have been produced from Jobs-Housing Linkage fees by MOHCD. However, other sources were used to produce a total of 6,224 low and moderate income units between 2010 and 2018 identified above in Table 8. The Planning Department reports that some of the fees and affordable housing units produced were under the auspices of the Office of Community Investment and Infrastructure and not included in the Controller's report that is the source of the fee collections information presented in Table 11,

While additional affordable housing units may eventually be constructed that will be subsidized by Jobs-Housing Linkage fees, MOHCD does not have a set timetable or tracking of affordable housing units by type relative to the Jobs-Housing Linkage fee.

### Housing Production Goals

- *Based on the State-defined Regional Housing Need Allocation goals for San Francisco for 2015-2022, as of 2018, San Francisco has produced 96% of the housing target goal for high wage workers but only 39% of the target for low-wage workers and 15% of the target for moderate-income workers. This count includes substantially rehabilitated affordable units in addition to net new housing units so some of those counted as completed units may not represent net new units.*

Every eight years, the California Department of Housing and Community Development determines the total number of new homes that the Bay Area needs to build by income segment to meet the housing needs of its residents. The Association of Bay Area

Governments (ABAG) distributes a share of the region's housing need to each city and county in the region. These needs consider not only changes in the number of jobs but other factors as well such as migration, births, and deaths.

Table 12 shows housing allocation goals for the City and County of San Francisco for 2015-2022 and the percentage of production targets achieved. As of 2018, or approximately 50 percent of the way through the eight year reporting period, San Francisco is above target in production of homes for high-income residents but behind target in production of low- and moderate-income residents, where only 39 and 15 percent of the goals have been achieved, respectively. Actual production of low-wage housing represents 24.9 percent of all housing produced between 2015 and 2018, lower than the 37.7 percent goal. Similarly, production of moderate-wage housing as of 2018 represented 4.8 percent of all units produced, compared to the goal of 18.9 percent of all units. High-wage housing, at 70.4 percent of all units produced during the four year period, exceeded the goal of 43.4 percent of all units. Further, the actual production statistics reported by the Planning Department and shown in Table 12 include substantially rehabilitated existing affordable units, as allowed by the State for Regional Housing Needs Allocation reporting, but may not represent net new housing to accommodate new households resulting from new jobs generated.

**Table 12: Regional Housing Needs Allocation, Planning Period 2015-2022, San Francisco County**

| Wage Level | Housing Goals 2015-2022 | % Total Housing Goal | Actual Production as of 2018 [a] | % Total Housing Production | % of Production Target Achieved | Production Deficit as of 2018 |
|---|---|---|---|---|---|---|
| Low-wage | 10,873 | 37.7% | 4,270 | 24.9% | 39% | 6,603 |
| Moderate-wage | 5,460 | 18.9% | 816 | 4.8% | 15% | 4,644 |
| High-wage | 12,536 | 43.4% | 12,071 | 70.4% | 96% | 465 |
| **Total** | **28,869** | 100.0% | **17,157** | 100.0% | 59% | **11,712** |

Source: SF Planning, Housing Inventory 2018, p.13.
[a] Includes new units certified for occupancy and substantial rehabilitation of existing affordable housing units, as allowed by the State. Substantial rehabilitation of existing affordable housing units is not included in the count of 6,224 newly produced affordable housing units presented in Table 8.

As can be seen in Table 12, even with inclusion of rehabilitated affordable units, which in many cases do not actually represent net new housing units, there has been a production deficit of affordable units between 2015 and 2018.

The Planning Department points out that RHNA goals are minimal goals based on a variety of factors including job growth, and because they were made in 2015, may not reflect current need.

## Jobs-Housing Fit: Projections

### Projections: Population and Households

Table 13 shows the projected population, number of households, and housing units for San Francisco County from 2010 through 2040, according to the Association of Bay Area Governments (ABAG).

**Table 13: Projected Population, Households, and Housing Units, San Francisco County, 2010-2040**

| | 2010 | 2020 | 2030 | 2040 | % Change (2010-2040) |
|---|---|---|---|---|---|
| Total population | 809,145 | 959,405 | 1,034,175 | 1,169,485 | 45% |
| Households | 345,810 | 408,600 | 437,505 | 483,695 | 40% |
| Total housing units | 376,480 | 423,550 | 446,190 | 495,035 | 31% |
| Multifamily units | 263,240 | 309,615 | 332,650 | 382,105 | 45% |
| Single family units | 113,240 | 113,935 | 113,540 | 112,930 | 0% |

Source: ABAG, Plan 2040. Data for 2010 is designed to approximate (but may still differ from) Census 2010 counts.

### Projections: Jobs Creation

- *The California Employment Development Department (EDD) projects that between 2016 and 2026, San Francisco area high-wage jobs and low-wage jobs will both increase at rates close to one another: 14% for high-wage jobs and 11% for low-wage jobs. Moderate-wage jobs are projected to increase but at a slower rate of 5%.*

Table 14 shows the number of jobs by wage level that are projected by EDD to be added between 2016 and 2026 for the San Francisco-Redwood City-South San Francisco Metropolitan Division.[9]

[9] EDD's 10-year employment projections are based on annual average employment levels by industry and the assumption that historical trends will continue into the future. EDD applies change factors, produced by the U.S. Bureau of Labor Statistics (BLS), to project shifts in occupations within particular industries. The BLS change factors project employment changes at the national level over a 10-year period and are not tailored to the local level.

**Table 14: Projected Jobs by Wage Level, San Francisco-Redwood City-South San Francisco, 2016-2026**

| Wage Level | 2016 Employment | 2026 Employment | Change | % Change |
|---|---|---|---|---|
| Low-wage | 430,440 | 479,930 | 49,490 | 11% |
| Moderate-wage | 297,630 | 312,090 | 14,460 | 5% |
| High-wage | 454,190 | 517,190 | 63,000 | 14% |
| **Total** | **1,182,260** | **1,309,210** | **126,950** | **11%** |

Source: CA Employment Development Department, 2016-2026 Employment Projections.

Table 15 shows EDD's projections of the top five fastest growing occupations between 2016 and 2026 for the San Francisco-Redwood City-South San Francisco area. As can be seen, excluding software developers, the other four fastest growing occupations are low-wage occupations. These projections demonstrate the mixed forecast for growth in the region, with growth in both high-wage and low-wage occupations, but, as discussed above, new housing mostly being produced for workers with high-wage occupations.

**Table 15: Top Five Fastest Growing Occupations, San Francisco-Redwood City-South San Francisco, 2016-2026**

| Occupational Title | 2016 Employment | 2026 Employment | % Change | Median Hourly Wage |
|---|---|---|---|---|
| Taxi Drivers and Chauffeurs | 5,450 | 9,440 | 73% | $18.57 |
| Couriers and Messengers | 2,060 | 3,210 | 56% | $14.84 |
| Software Developers | 26,760 | 39,170 | 46% | $67.39 |
| Personal Care Aides | 33,860 | 48,690 | 44% | $12.16 |
| Home Health Aides | 1,640 | 2,260 | 38% | $14.15 |

Source: CA Employment Development Department, 2016-2026 Employment Projections.
Note: Occupations with employment below 400 in 2016 have been excluded.

To estimate the number of projected jobs in San Francisco County alone, we used EDD's data for the total number of jobs in each county in 2016.[10] Of the total number of jobs in both counties, jobs in San Francisco County made up approximately 64 percent of total jobs for both counties combined We applied the 64 percent to the total number of jobs for the two counties combined to project the number of jobs and new housing units needed for San Francisco only, by income segment. We divided the total number of jobs in San Francisco by 1.74, or the number of workers per worker household[11] according to the 2011-2015 ACS, and subtracted the number of housing units that were constructed between 2016 and 2018. Table 16 provides estimates of projected jobs for

[10] While total jobs data is available from EDD at the county level, data on jobs by occupation and wages is only available at the regional level, with San Francisco data combined with San Mateo County data.
[11] This is a conservative estimate because it excludes all non-worker households, such as students and the retired.

San Francisco County alone and the number of new housing units needed going forward (2019-2026).

As shown in Table 16, using our estimates of job growth by income segment between 2016 and 2026, progress has been made to fill the housing needs of workers in high-wage and moderate-wage job growth. Housing for high wage occupations has been the most constructed thus far in the 11 year period, with 9,185 units, or 40 percent of projected need, constructed. Housing for workers in the moderate-income occupations has been a smaller quantity, at 1,940 units, representing 36.4 percent of estimated need through 2026. Housing for new low-wage jobs however, has been very low compared to need, with only 974 units, or 5.3 percent of estimated need constructed in the first three years of the 11-year projection period.

**Table 16: Projected Jobs by Wage Level, Estimate for San Francisco County Only, 2016-2026**

| Wage Level | 2016 Employment | 2026 Employment | Change | Housing Needed | Housing Constructed 2016-2018 | % Housing Needed | Housing Needed 2019-2026 |
|---|---|---|---|---|---|---|---|
| Low-wage | 275,868 | 307,586 | 31,718 | 18,229 | 974 | 5.3% | 17,255 |
| Moderate-wage | 190,750 | 200,018 | 9,267 | 5,326 | 1,939 | 36.4% | 3,387 |
| High-wage | 291,089 | 331,466 | 40,377 | 23,205 | 9,183 | 40.0% | 14,022 |
| **Total** | **757,707** | **839,069** | **81,362** | **46,760** | **12,096** | **25.9%** | **34,664** |

Source: CA Employment Development Department, 2016-2026 Employment Projections.
Note: Housing needed accounts for the housing that was completed between 2016 and 2018 according to the SF Planning Housing Inventory 2018.

## Projections: Housing Production

➢ *Using estimates of the number of housing units that will be needed to match job growth through 2026 and the number of housing units currently in the pipeline in San Francisco, we estimate that there will continue to be a severe shortage in the number of housing units for low-wage households in the coming years while there will be enough housing constructed for the future needs of high-wage households.*

In addition to reporting actual production of housing, the Planning Department also reports entitled units, or those that have been approved by the Planning Commission and are at various stages of development but not yet built. Units under construction and projects with active building permits are likely to be completed within the current Regional Housing Needs Allocation period of 2015-2022. The Planning Department reports that not all filed building permits will necessarily turn into constructed housing units as project plans and financing sometimes change after a building permit is filed. However, it is reasonable to assume that most will be built. Typical duration from filing of building permit to building completion typically ranges from two to four years, depending on the size and complexity of the project.

Table 17 shows the housing pipeline as of the second quarter of 2018. Of the 28,764 housing units entitled, or approved by the Planning Commission, housing for high-wage households make up the majority of housing units entitled (86.1%), while housing for low-wage households makes up 7.5% and housing for moderate-wage households makes up 2.1%.

The Planning Department advises that some of the housing now classified as "high income" may turn out to be designated as affordable housing as not all developers have declared how they will meet Below Market Rate (BMR) housing requirements at this stage. Further, not all units for which building permits have been issued actually end up being built or built in the originally designated time period as circumstances such as financing for projects can change after building permits are issued.

Table 17: Housing Pipeline by Income Level, San Francisco, 2018 Q2

| Income Level | Building Permit Filed | Building Permit Approved or Issued | Under Construction | Entitled, No Permits Filed | Total Entitled | % Entitled |
|---|---|---|---|---|---|---|
| Low income | 32 | 557 | 887 | 150 | 1,626 | 7.5% |
| Moderate income | 179 | 118 | 265 | 15 | 577 | 2.7% |
| High income | 4,524 | 5,768 | 5,414 | 2,921 | 18,627 | 86.1% |
| TBD | 120 | 115 | 512 | 56 | 803 | 3.7% |
| **Total** | **4,855** | **6,558** | **7,078** | **3,142** | **21,633** | **100%** |

Source: SF Planning, Housing Development Pipeline Report 2018 Q2; income level distribution from Planning Department. Excludes seven major development projects that have been entitled but are not expected to be completed by 2022, the end of the current Reginal Housing Needs Allocation period.

Based on the housing pipeline and our estimated number of housing units needed for the projected number of jobs that will be created in San Francisco,

Table 18 shows the difference, or gap, by wage level. Based on this estimate, there is a severe shortage in the number of housing units for low-wage households in the housing pipeline. The estimated need shown in Table 18 is in addition to the existing affordable housing deficit discussed above and estimated to be 11,585 affordable housing units for just 2016-2018.

**Table 18: Difference between Housing Units in the Pipeline as of 2018 and Projected** Housing Needed by Income Level through 2026, San Francisco

| Income Level | Housing Needed | Total Entitled | Difference |
|---|---|---|---|
| Low income | 17,255 | 1,626 | 15,629 |
| Moderate income | 3,387 | 577 | 2,810 |
| High income | 14,022 | 18,627 | -4,605 |
| **Total** | **34,664** | **20,830** | **13,834** |

Notes: Total entitled pipeline data as of Quarter 2, 2018.
Units classified as TBD in Table 17 are not included.

The Budget and Legislative Analyst has reviewed Planning Department Pipeline data from 2019 which shows that progress has been made in reducing the gap between housing needed and housing entitled. Though the Planning Department has not vetted the pipeline estimated prepared by our office or provided updates on low and moderate income housing entitlements, we have estimated that with entitlements as of the second quarter of 2019, the gap may be approximately 9,327.

## Policy Options

The Board of Supervisors could:

3. Request the Planning Department to prepare annual projections of new jobs for San Francisco, by income segment, and new affordable housing completed and in the pipeline to identify any gap between employment projections and new housing.
4. Request that MOHCD track new housing to be funded by Jobs-Housing Linkage fee revenue by income segment and report to the Board of Supervisors annually on new affordable housing completed and in the pipeline by income segment.

## Limitations

- Employment projections are based on national-level estimates of employment changes that assume that historic employment trends will continue into the future. However, events that are impossible to predict, such as major business closures or natural disasters, may occur during the projection period.
- Occupation-level employment and wage data is only available at the San Francisco-San Mateo County level.

- Assignment to low, moderate, or high wage categories is based on the median hourly wage within an industry. Within each industry, there could be individual workers who fall under the low, moderate, and high wage categories, but individual-level data is not available.
- Prior to 2016, occupation-level employment and wage data for San Francisco County was combined with data for San Mateo and Marin Counties. As of 2016, Marin County is now a separate area, the San Rafael Metropolitan Division, is no longer part of San Francisco-San Mateo Metropolitan Division. This limits the ability to compare current occupational employment and wage levels with data from before 2016.
- The housing pipeline underestimates the amount of affordable housing that will eventually be built.
- Our estimate of projected housing need is based on EDD's 2016-2026 employment projections, which are presented in the number of **jobs**, and Keyser-Marston's nexus study estimate of the number of **workers** per housing unit. Our estimate is slightly skewed due to the fact that the number of jobs is not the same as the number of workers because some workers have more than one job and some individuals in the workforce are unemployed.

FILE NO. 190770 RESOLUTION NO. 337-19

[Approval of a 90-Day Extension for Planning Commission Review of the Jobs Housing Linkage Fee (File No. 190548)]

**Resolution extending by 90 days the prescribed time within which the Planning Commission may render its decision on an Ordinance (File No. 190548) amending the Planning Code to update the Jobs Housing Linkage Fee; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.**

WHEREAS, On May 14, 2019, Supervisor Haney introduced legislation amending the Planning Code to update the Jobs Housing Linkage Fee; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; affirming the Planning Department's determination under the California Environmental Quality Act; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302; and

WHEREAS, On or about May 17, 2019, the Clerk of the Board of Supervisors referred the proposed Ordinance to the Planning Commission; and

WHEREAS, The Planning Commission shall, in accordance with Planning Code, Section 306.4(d), render a decision on the proposed Ordinance within 90 days from the date of referral of the proposed amendment or modification by the Board to the Commission; and

WHEREAS, Failure of the Commission to act within 90 days shall be deemed to constitute disapproval; and

WHEREAS, The Board, in accordance with Planning Code, Section 306.4(d), may, by Resolution, extend the prescribed time within which the Planning Commission is to render its decision on proposed amendments to the Planning Code that the Board of Supervisors initiates; and

WHEREAS, Supervisor Haney has requested additional time for the Planning Commission to review the proposed Ordinance; and

WHEREAS, The Board deems it appropriate in this instance to grant additional time to the Planning Commission to review the proposed Ordinance and render its decision; now, therefore, be it

RESOLVED, That by this Resolution, the Board hereby extends the prescribed time within which the Planning Commission may render its decision on the proposed Ordinance by approximately 90 additional days, until November 13, 2019.

City and County of San Francisco

Tails

Resolution

City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

**File Number:** 190770 **Date Passed:** July 16, 2019

Resolution extending by 90 days the prescribed time within which the Planning Commission may render its decision on an Ordinance (File No. 190548) amending the Planning Code to update the Jobs Housing Linkage Fee; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

July 16, 2019 Board of Supervisors - ADOPTED

Ayes: 10 - Brown, Fewer, Haney, Mandelman, Peskin, Ronen, Safai, Stefani, Walton and Yee
Excused: 1 - Mar

File No. 190770

I hereby certify that the foregoing Resolution was ADOPTED on 7/16/2019 by the Board of Supervisors of the City and County of San Francisco.

Angela Calvillo
Clerk of the Board

London N. Breed
Mayor

7/26/19
Date Approved

SAN FRANCISCO
OFFICE OF SMALL BUSINESS

CITY AND COUNTY OF SAN FRANCISCO
LONDON BREED, MAYOR

OFFICE OF SMALL BUSINESS
REGINA DICK-ENDRIZZI, DIRECTOR

October 29, 2019

Ms. Angela Calvillo, Clerk of the Board
City Hall Room 244
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

RE: BOS File No. 190548: Planning Code - Jobs Housing Linkage Fee and Inclusionary Housing

Small Business Commission Recommendation to the Board of Supervisors: **Approve only upon acceptance of amendments.**

Dear Ms. Calvillo,

On October 29, 2019 the Small Business Commission (SBC or Commission) heard BOS File No. 190548: Planning Code - Jobs Housing Linkage Fee and Inclusionary Housing. Courtney McDonald, Legislative Aide to Supervisor Matt Haney provided an overview of the legislation. Ken Rich, Director of Development with the Office of Economic and Workforce Development (OEWD) was also in attendance and provided the Commission with an overview of OEWD's Feasibility Report relative to the ordinance.

The Commission engaged in a substantive discussion regarding the legislation with both Ms. McDonald and Mr. Rich. The Commissioners were especially appreciative for the opportunity to discuss both the both the proposed Jobs Housing Linkage fee increase for Office and Laboratory Uses from both the Supervisor's and OEWD's perspectives. The Commission holds a particular concern that the ordinance's proposed increase ($69.60/gsf for Office vs. $46.43/gsf for Laboratory) does not align with the Feasibility Report's recommendation to increase the fee by $10/gsf.

Additionally, the Commission also shared concerns regarding the Controller's Economic Impact Report's assessment of the ordinance. Specifically that the legislation may result in a net job loss over the next 20 years and that the city's GDP would experience a net loss of $280-330 million.

The Commission also anticipates there would be an inequitable effect on small capitalization and large capitalization projects that would incur the Jobs Housing Linkage Fee as proposed. Specifically, that although large capitalization projects are more likely have the capital available to them to comply with the fee increase, small capitalization projects which are more vulnerable, will not.

Responsive to the discussion, the Commission recommends that a tiered approach to the Jobs Housing Linkage Fee assessment be adopted and, that that fee increases per tier fall between the

OEWD's Feasibility Report's recommendations and sponsor's proposal.

Thank you for considering the Commission's comments. Please feel free to contact me should you have any questions.

Sincerely,

R. M. Dick-Endrizzi

Regina Dick-Endrizzi
Director, Office of Small Business

cc: Matt Haney, Member, Board of Supervisors,
Sophia Kittler, Mayor's Liaison to the Board of Supervisors
Lisa Pagan, Office of Economic and Workforce Development
Erica Major Clerk, Public Safety and Neighborhood Services Committee

SAN FRANCISCO
OFFICE OF SMALL BUSINESS

**Legislative Background**
**BOS File No. 190548**

| | |
|---|---|
| Name: | Planning Code - Jobs Housing Linkage Fee (JHLF) and Inclusionary Housing |
| Sponsor(s): | Supervisors Haney, Fewer, Ronen, Mar, Peskin, Walton, and Yee |
| First Date Introduced: | May 14, 2019 |
| Substituted and Assigned: | September 10, 2019 |
| Date Referred: | Self-Referred, October 16, 2019 |
| Scheduled for BOS Committee: | October, 21, 2019, Land Use and Transportation Committee |

*Legislation Overview:*
This ordinance intends to amend the Planning Code to modify the Jobs Housing Linkage Fee (JHLF) by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program.

The last Jobs Housing Nexus Analysis was completed in 1997. This ordinance was initially introduced on May 14, 2019. That ordinance made proposed amendments to the findings of section 413.1, and raised the fee for office projects to $38.00. Substitute legislation was introduced on September 10, 2019. The City published an updated Nexus Study by Keyser Marsten Associates, Inc. in May 2019, and a Feasibility Report by Economic & Planning Systems, Inc. in June 2019.

*Existing Laws*
Consistent with the California Mitigation Fee Act, the Planning Code provides that certain commercial developments must pay a Jobs-Housing Linkage fee ("JHLF"). The Jobs-Housing Linkage program requires projects constructing new or expanded non-residential buildings of more than 25,000 square feet of development to offset the demand for new affordable housing created by those projects. The JHLF is codified in Planning Code Section 413.1 et seq. Section 413.5 allows a project sponsor to comply with the JHLF by either making a payment, or dedicating land to a housing developer. While most citywide development fees are indexed annually according to the Annual Infrastructure Construction Cost Inflation Estimate, the JHLF is indexed according to procedures developed by the Mayor's Office of Housing and Community Development. Projects within the Central SoMa Special Use District can comply with the JHLF by offering land to the City. Projects may receive credit up to the value of the land donated. Typically, a project must pay any development fees before the issuance of the first construction document. Any funds received pursuant to the JHLF are deposited into the Citywide Affordable Housing Fund. The Small Sites Funds is a program under the City's Inclusionary Housing program to support acquisition and rehabilitation of "Small Sites," and funding for the Small Sites program is capped at $15 million.

The last Jobs Housing Nexus Analysis, completed in 1997.

*Amendments to Current Law*

This ordinance would make the following amendments to the JHLF:

- Align the indexing of the JHLF with other fees. Most citywide development fees are indexed according to the Annual Infrastructure Construction Cost Inflation Estimate, pursuant to the Section 409. This amendment would remove the exception to that requirement for the JHLF codified in Section 409, and Section 413.6
- Streamline the findings in Section 413.1. This ordinance would update many of the historical findings related to the JHLF.
- Allow a project sponsor to comply with the JHLF by: paying a fee to the City; offering the City land of equal value to the proposed fee, or a combination of fee and land dedication to the City. It no longer permits a project sponsor to comply with the JHLF by offering to pay a fee or offer land to a housing developer.
- Raise the JHLF for Office use to $69.60, and Laboratory use to $46.43. Remaining JHLF fees for other categories are not subject to change.

| Current JKLF | | May 2019 Proposal | | Current 2019 Proposal | |
|---|---|---|---|---|---|
| **Office:** | **$28.57/gsf** | **Office:** | **$38.00/gsf** | **Office:** | **$69.60/gsf** |
| **Laboratory:** | **$19.04/gsf** [1] | **Laboratory:** | **$13.30/gsf** | **Laboratory:** | **$46.43/gsf** |

- Require that certain projects pay any additional amounts due under the JHLF prior to the first Certificate of Occupancy.
- Set aside 10% of the fees received through the JHLF for the preservation and acquisition of rent restricted affordable housing, and 30% for permanent supportive housing.

The ordinance would amend the Inclusionary Housing program by removing the $15 million cap limit on Small Sites Program Funding.

***Amendments in 10/21/2019 Land Use Committee***

- Reducing the fee for projects that filed in application by September 10, 2019 to $57.14 per square foot
- Fee rising to $69 per square foot by 2022

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*Additional Information:*

Office building are divided into three classifications:

**Class A**

These buildings represent the newest and highest quality buildings in their market. They are generally the best looking buildings with the best construction, and possess high-quality building infrastructure. Class A buildings also are well located, have good access, and are professionally managed. As a result of this, they attract the highest quality tenants and also command the highest rents.

[1] Current Fee amount.

**Class B**
This is the next notch down. Class B buildings are generally a little older, but still have good quality management and tenants. Oftentimes, value-added investors target these buildings as investments since well-located Class B buildings can be returned to their Class A glory through renovations such as facade and common area improvements. Class B buildings should generally not be functionally obsolete and should be well maintained.

**Class C**
The lowest classification of office building and space is Class C. These are older buildings and are located in less desirable areas and are often in need of extensive renovation. Architecturally, these buildings are the least desirable, and building infrastructure and technology is outdated. As a result, Class C buildings have the lowest rental rates, take the longest time to lease, and are often targeted as re-development opportunities.

The above is just a general guideline of building classifications. No formal standard exists for classifying a building. Buildings must be viewed in the context of their sub-market; i.e., a Class A building in one neighborhood may not be a Class A building in another.[2]

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### *Considerations:*

The JHLF is applied to newly built or expanded non-residential buildings over 25,000 sq. ft.[3] This fee is likely to be passed on to the building office tenants through rent increases.

This fee may also be passed on to the ground floor commercial tenant driving up cost of storefront commercial space through triple-net leases where tenants are responsible for operating expenses.

This fee will drive up overall cost of office real estate including Class B and C. Not only for businesses located in the Downtown and South of Market Districts, but for the entire City. With the rise in overall office rent due to the JHLF, it will push office tenants currently occupying Class B and C spaces in the Downtown and South of Market Districts further south and west in the San Francisco. The City is currently in great need of affordable Class B and C office space for small businesses. Which consist of childcare centers, small CPA firms, legal firms and other professional services, non-profits, dentist, doctors, psychologists, psychiatrists, acupuncturists, chiropractors, massage therapist, graphic designers, physical therapist and trade schools, such as the San Francisco Institute of Esthetics & Cosmetology. The Renaissance Entrepreneur Center is a key organization for San Francisco businesses and it is likely in a Class C building in the SoMa district.

San Francisco is in need of more affordable development of small office space in the south and west side of the City. The ActivSpace situation highlighted this need. With the passage of the JHLF at $69.60/gsf, building outside of the Downtown/ SOMA, Mission Bay districts, could be cost prohibitive particularly with the low square footage threshold of 25,000 sq. ft. Imposing development impact fee rates above what is found feasible can also postpone or halt the construction of a Development Project. Any public benefit revenue or public improvements that were expected from such projects may not materialize.

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[2] Newmark Commercial Reality: A Guide to Office Building Classification

[3] For reference and scale: 25,000 sq. ft. is the equivalent of the Department on the Environment at 1455 Market Street office space.

The JHLF needs to be taken into consideration in combination with other impact special taxes, such as Central SoMa Mello-Roos Community Facilities District (CFD) Special Tax applies to prototypes in Central SoMa and is levied to fund public amenities and infrastructure in the district. The Transit Center District also has a similar CFD special tax, which was adopted earlier. The tax is $4.36/gsf for office in Central SoMa and $5.52 per gross square foot in the Transit Center, and $3.18 /gsf for retail in Central SoMa and $4.02 /gsf in the Transit Center, subject to annual rate escalations. The Central SoMa Mello-Roos CFD Program participation requirement applies to projects in the Plan area that include new construction or the net addition of more than 25,000 gross square feet of non-residential development on Class B or Class C properties.

The Early Care and Education Commercial Rents Tax effective 2019, imposes a new gross receipts tax of 3.5 percent of building lease income on commercial spaces in the City. Each of the prototypes in the feasibility study would be subject to this tax.

The feasibility study indicates that small capitalization projects can bear about $10.00 increase in the JHLF. If the large capitalization developers can charge their tenants historically high rents to make the projects pencil with a larger than $10.00 increase, this would likely not apply to small cap office developers, which will have a different set of tenants. The technology boom is driving up office rents, these rents hikes are not only directly impacting the office rental rates Citywide, it is affecting rental rates of ground floor commercial in the City's neighborhood commercial corridors. Where is it is not uncommon to hear of commercial rents doubling and tripling at the time of lease renewal.

The Planning Department staff has expressed its support for "the overarching aim of the Ordinance" to generate funding for affordable housing, but expressed strong concerns about the proposed rates and proposed $38.57/gsf increase. The Planning Commission did not take that recommendation and recommended approval with the $69.60/gsf.

BAYAREA COUNCIL

October 28, 2019

Small Business Commission
City Hall 1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102-4689

***RE: Jobs Housing Linkage Fee and Inclusionary Housing***

Dear President Adams and Commissioners,

The Bay Area Council strongly urges the Small Business Commission to continue the item (Jobs Housing Linkage Fee and Inclusionary Housing) to a future committee meeting, to allow for more time for stakeholder input, discussion, and analysis.

Changing the fee will have major impacts on our residents, affordable housing supply, workers, and businesses. The City's feasibility study shows that the dramatic increase proposed would postpone, halt, or stall office space construction across the City. This can have major, unintended consequences for the San Francisco's community, residents and infrastructure. According to the Planning Department:

*Development impact fee rates should be set in accordance with feasibility assessments. This assures that the City captures as much value from new Development Projects without jeopardizing their viability. In this way the City gains both the new Development Project and associated impact fees to fund public infrastructure and benefits. The City has a feasibility assessment for Office uses that recommends a rate no higher than $38.57/gsf.*

Nevertheless, the fee considered is more than double the current amount. If the policy objective is to expand office development as a major funding source for the preservation and production of permanent affordable housing, imposing an infeasible rate only counters this objective. The city should not jeopardize the future growth of the city's economy, inadvertently hurting current residents and future generations by reducing the chance to share in economic progress, depleting funds for those most in need, and thereby impacting quality of life.

Such a significant policy change deserves more time for discussion and stakeholder input before moving forward.

Sincerely,

Matt Regan

Matt Regan
Senior Vice President, Public Policy
Bay Area Council

P 415.946.8777
F 415.981.6408
353 Sacramento Street, 10th Floor
San Francisco, California 94111
1215 K Street, Suite 2220
Sacramento, California 95814

SPUR
San Francisco | San Jose | Oakland

September 17, 2019

San Francisco Planning Commission
1650 Mission Street, Suite 400
San Francisco, CA 94103

**RE: September 19, 2019, Item F.10: Jobs Housing Linkage Fee 2019-011975PCA [Board File No. 190548]**

Dear Planning Commissioners:

Thank you for the opportunity to provide input on the proposed increase to San Francisco's Jobs Housing Linkage Fee. We urge you to seriously weigh the information on financial feasibility that you have in hand as you consider this item.

San Francisco's Jobs Housing Linkage Fee is one of several important sources of funding for affordable housing in San Francisco. Given how the economy has evolved, it is not surprising that the recent nexus study update justifies a higher linkage fee than in the past. However, we would challenge the aggressive assumption that all workers in new commercial buildings will live in San Francisco. Most importantly, it is critical to consider financial feasibility when setting impact fee levels.

Given construction costs and other current dynamics, it is already difficult for new development to make sense. The city's feasibility study shows an increase of $10 per square foot would be viable for *some* new development. Setting the fee at more than 240% (a $40 per square foot increase for office and a $27 per square foot increase for R&D) of its existing rate is extraordinarily aggressive and will certainly render some office and R&D projects infeasible.

While this may seem appealing to some, this does not actually serve the city's purposes. With office space in high demand today, if developers choose not to build more, this decision will merely make our existing office space more expensive, pushing rents higher for non-profit organizations, small businesses and other non-tech businesses and potentially displacing them to inconvenient or suburban locations. This also further reduces the diversity of San Francisco's economy. The city's nonprofits and smaller businesses are already grappling with this challenge in today's market, and stopping new commercial construction will only exacerbate the problem. Further, if generating affordable housing funding from the fee is truly the goal, then commercial development needs to be able to occur in order to trigger that payment.

SPUR agrees that it is important for San Francisco's commercial uses and employers to contribute to the city's coffers for affordable housing. Updating the fee by some amount may be appropriate today. But it should not be a tool to bring the construction of new office and R&D space to a halt. That will have impacts on San Francisco far beyond the bottom line of developers, who will simply look elsewhere for opportunities. We urge you to accept Planning staff's recommendation to approve an increase that is in line with the city's feasibility analysis.

Please feel free to reach out if you have any questions.

Sincerely,

Kristy Wang
Community Planning Policy Director

CC: Supervisor Matt Haney
SPUR Board of Directors

SAN FRANCISCO CHAMBER OF COMMERCE
235 Montgomery St., Ste. 760, San Francisco, CA 94104
tel: 415.352.4520 • fax: 415.392.0485
sfchamber.com • twitter: @sf_chamber

October 24th, 2019

Small Business Commission
San Francisco City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA

RE: Jobs Housing Linkage Fee, File No: 190548

Dear Commissioners;

Thank you for the opportunity to provide input on the proposed increase to the Jobs Housing Linkage Fee (File: 190548).

The San Francisco Chamber of Commerce, representing over a thousand local businesses, is writing to encourage you to support amendments to the ordinance to help support small businesses who rely on affordable office space to stay in the City.

We appreciate Supervisor Haney's leadership in strengthening the linkage between jobs and housing and initiating an overdue examination of the Jobs Housing Linkage Fee. We absolutely agree that San Francisco needs more affordable housing to support our growing economy.

The Jobs Housing Linkage Fee is an integral part of our City's planning process. It has significant impacts on our local economy, the supply of commercial and laboratory space, and our ability to fund affordable housing.

The City's feasibility study has warned that increasing the fee too dramatically and suddenly would postpone and stop construction of commercial space in San Francisco. A joint memorandum from the City's Planning Department, Office of Housing and Community Development, and Office of Economic and Workforce Development concludes that limiting development 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." This will inevitably push out smaller, home-grown businesses that rely on affordable office space.

We deeply appreciate the Supervisor's willingness to work with businesses and stakeholders in creating a Jobs Housing Linkage Fee that will responsibly balance our jobs-housing ratio. We are optimistic that we can reach a positive, consensus solution that is supported by the business community, affordable housing advocates, and City Hall.

We believe the following amendments would strengthen the ordinance and support small businesses:

**A Reduced Jobs Housing Linkage Fee for Laboratory Space**
San Francisco is home to over 100 life science and biotech companies, over 80% are small businesses with 50 employees or less. These companies are research-focused businesses, mostly supported by federal grants. They face a deep shortage of usable Laboratory space in the City, which increases their real estate costs and hurts their ability to sustain a business. In addition, the Jobs Housing Economic Nexus calculates that Laboratory space only requires 55% of the affordable housing burden that office space requires.

SAN FRANCISCO CHAMBER OF COMMERCE
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We encourage the ordinance to reduce the Jobs Housing Linkage Fee for Laboratory space to a ratio of 55% of the Jobs Housing Linkage Fee for office space, approximately $31-$38. This recognizes San Francisco's deep need for affordable housing while also supporting the future development of Laboratory space in the City.

We understand that Supervisor Haney's office may be making amendments in this direction, and we deeply appreciate his thoughtfulness and support.

**A Separate Tier for Development that Supports Small and Mid-sized Businesses**
Many small, local, professional service businesses rely on affordable office space to stay in the City. Smaller office space developments naturally support small and mid-sized businesses. We should incentivize the development of developments that will provide office space to these small businesses and encourage a diversity of industries in San Francisco.

The Jobs Housing Economic Nexus and the City's feasibility study on the issue both ignore these small businesses and developments in their calculations. The Economic Nexus does not calculate for any building less than 100,000 square feet. The City's feasibility study only assumes a 12% rental increase growth - a rental increase that unrealistic for most small businesses.

We encourage the ordinance to create a separate, reduced fee tier for office space developments with less than 75,000 square feet. This amendment recognizes the importance of small business and the need to keep them in San Francisco. We believe that San Francisco's fee for office space developments with less than 75,000 square feet should start at $37.71 and gradually increase over a period of two years to $45.93.

**Regular Economic Feasibility Analysis and Adjustment**
Many of the City's major economic policies, such as the inclusionary housing requirement, require the City Controller and Board of Supervisors to review economic feasibility every three years and give the Board of Supervisors the opportunity to adjust the policy. This allows the City to adapt and reflect changes in the local economy.

We recommend including the same regular feasibility analysis and adjustment language for the Jobs Housing Linkage Fee ordinance.

We believe including these three amendments in the ordinance will help many stakeholders support a responsible and progressive policy. Thank you for your consideration.

Sincerely,

Rodney Fong
President & CEO
San Francisco Chamber of Commerce

CC: Mayor London Breed, Supervisor Matt Haney, Clerk of the Board of Supervisors

SAN FRANCISCO
**PLANNING DEPARTMENT**

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September 27, 2019

Ms. Angela Calvillo, Clerk
Honorable Supervisor Haney
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 2019-011975PCA:**
**Jobs Housing Linkage Fee**
**Board File No. 190548**
**Planning Commission Recommendation:** ***Approval***

Dear Ms. Calvillo and Supervisor Haney,

On September 19, 2019, the Planning Commission conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance, introduced by Supervisor Haney that would amend Planning Code to modify the Jobs Housing Linkage Fee. At the hearing the Planning Commission recommended approval of the Ordinance.

The proposed amendments are not defined as a project under CEQA Guidelines Section 15060(c)(2) and 15378 because they do not result in a physical change in the environment.

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:
Austin M. Yang, Deputy City Attorney
Courtney McDonald, Aide to Supervisor Haney
Erica Major, Office of the Clerk of the Board

Attachments:
Planning Commission Resolution
Planning Department Executive Summary

SAN FRANCISCO
PLANNING DEPARTMENT

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# Planning Commission Resolution No. 20522

HEARING DATE SEPTEMBER 19, 2019

| | |
|---|---|
| *Project Name:* | **Jobs Housing Linkage Fee** |
| *Case Number:* | **2019-011975PCA** [Board File No. 190548] |
| *Initiated by:* | Supervisor Haney / Introduced May 14, 2019; Substituted September 10, 2019 |
| *Staff Contact:* | **Diego Sanchez**, Legislative Affairs<br>diego.sanchez@sfgov.org, 415-575-9082 |
| *Reviewed by:* | Aaron D Starr, Manager of Legislative Affairs<br>aaron.starr@sfgov.org, 415-558-6362 |

RESOLUTION APPROVING A PROPOSED ORDINANCE THAT WOULD MODIFY THE JOBS HOUSING LINKAGE FEE BY ALLOWING INDEXING OF THE FEE, ADDING OPTIONS FOR COMPLYING WITH THE FEE, REQUIRING PAYMENT OF THE FEE NO LATER THAN AT THE TIME OF FIRST CERTIFICATE OF OCCUPANCY, DEDICATING FUNDS FOR PERMANENT SUPPORTIVE HOUSING AND THE PRESERVATION AND ACQUISITION OF AFFORDABLE HOUSING, AND TO REMOVE THE MONETARY LIMIT FOR THE SMALL SITES FUNDS UNDER THE INCLUSIONARY HOUSING PROGRAM; 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 May 14, 2019 Supervisor Haney introduced a proposed Ordinance under Board of Supervisors (hereinafter "Board") File Number 190548, which would amend the Planning Code to update the Jobs Housing Linkage Fee;

WHEREAS, on July 9, 2019 Supervisor Haney introduced a proposed Resolution under Board File Number 190770 to extend the prescribed time within which the Planning Commission may render its decision on an Ordinance (File No. 190548) amending the Planning Code to update the Jobs Housing Linkage Fee which would amend the Planning Code to update the Jobs Housing Linkage Fee by 90 days;

WHEREAS, on September 10, 2019 Supervisor Haney introduced a substitute Ordinance under Board of Supervisors (hereinafter "Board") File Number 190548, which would amend the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the Fee, adding options for complying with the Fee, requiring payment of the Fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing program;

WHEREAS, The Planning Commission (hereinafter "Commission") conducted a duly noticed public hearing at a regularly scheduled meeting to consider the proposed Ordinance on September 19, 2019; and,

WHEREAS, the proposed Ordinance has been determined to be categorically exempt from environmental review under the California Environmental Quality Act Section 15060(c) and 15378; 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 1650 Mission Street, Suite 400, 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** the proposed ordinance.

## 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:

1. The City needs to periodically analyze its development impact fees to assure that they reflect the latest relationship between non-residential uses and the demand for goods and services they create.

2. Updating the JHLF rate is important given that the fee rate has not been analyzed holistically in approximately two decades.

3. **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 7**

SECURE FUNDING AND RESOURCES FOR PERMANENTLY AFFORDABLE HOUSING, INCLUDING INNOVATIVE PROGRAMS THAT ARE NOT SOLELY RELIANT ON TRADITIONAL MECHANISMS OR CAPITAL.

**Policy 7.1**

Expand the financial resources available for permanently affordable housing, especially permanent sources.

*Updating and increasing the Jobs-Housing Linkage Fee will help expand the financial resources available for permanently affordable housing.*

## WESTERN SOMA AREA PLAN

**OBJECTIVE 3.5**

ENSURE THAT NEW RESIDENTIAL DEVELOPMENTS SATISFY AN ARRAY OF HOUSING NEEDS WITH RESPECT TO TENURE, UNIT MIX AND COMMUNITY SERVICES.

**Policy 3.5.5**

Provide through the permit entitlement process a range of revenue-generating tools including impact fees, public funds and grants, assessment districts, and other private funding sources, to fund community and neighborhood improvements.

*Updating and increasing the Jobs-Housing Linkage Fee will help provide new resources to fund community improvements such as affordable housing.*

## MISSION AREA PLAN

**OBJECTIVE 2.1**

ENSURE THAT A SIGNIFICANT PERCENTAGE OF NEW HOUSING CREATED IN THE MISSION IS AFFORDABLE TO PEOPLE WITH A WIDE RANGE OF INCOMES.

**Policy 2.1.2**

Provide land and funding for the construction of new housing affordable to very low- and low-income households.

*An updated and increased Jobs-Housing Linkage Fee will contribute new resources to construct affordable housing, including for very low- and low-income households.*

**OBJECTIVE 2.3**

ENSURE THAT NEW RESIDENTIAL DEVELOPMENTS SATISFY AN ARRAY OF HOUSING NEEDS WITH RESPECT TO TENURE, UNIT MIX AND COMMUNITY SERVICES.

**Policy 2.3.5**

Explore a range of revenue-generating tools including impact fees, public funds and grants, assessment districts, and other private funding sources, to fund community and neighborhood improvements.

*Updating and increasing the Jobs-Housing Linkage Fee will help provide new resources to fund community improvements such as affordable housing.*

## BAYVIEW HUNTERS POINT AREA PLAN

**OBJECTIVE 6**

ENCOURAGE THE CONSTRUCTION OF NEW AFFORDABLE AND MARKET RATE HOUSING AT LOCATIONS AND DENSITY LEVELS THAT ENHANCE OVERALL RESIDENTIAL QUALITY OF BAYVIEW HUNTERS POINT.

**Policy 6.1**
Encourage development of new affordable ownership units, appropriately designed and located and especially targeted for existing Bayview Hunters Point residents.

*An updated and increased Jobs-Housing Linkage Fee will augment the resources available to construct affordable housing, including ownership units, in the Bayview Hunters Point neighborhood.*

4. **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 because the Ordinance proposes to modify the fee rate and implementation procedures for a development impact fee on office and laboratory uses.*

    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 have a beneficial effect on housing and neighborhood character as the new resources for affordable housing it can generate will help preserve the cultural and economic diversity of the City's neighborhoods.*

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

        *The proposed Ordinance would have a beneficial effect on the City's supply of affordable housing because it proposes to increase the resources available to develop and preserve 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 because it proposes to amend development impact fee rates and implementation procedures.*

    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 as the Ordinance proposes to modify development impact fees on office uses.*

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 as the proposed Ordinance seeks to modify development impact fee rates and their implementation procedures.*

7. That the landmarks and historic buildings be preserved;

   *Because the proposed Ordinance would modify development impact fee rates and implementation procedures, it 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 because the Ordinance proposes to modify development impact fee rates and their implementation procedures.*

5. **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 the proposed Ordinance as described in this Resolution.

I hereby certify that the foregoing Resolution was adopted by the Commission at its meeting on September 19, 2019.

Jonas P. Ionin
Commission Secretary

AYES: Fung, Koppel, Melgar, Moore, Richards

NOES: None

ABSENT: Johnson

ADOPTED: September 19, 2019

SAN FRANCISCO
**PLANNING DEPARTMENT**

# Executive Summary
## Planning Code Text Amendment
**HEARING DATE: SEPTEMBER 19, 2019**
**EXTENDED DEADLINE: NOVEMBER 13, 2019**

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| | |
|---|---|
| *Project Name:* | **Jobs Housing Linkage Fee** |
| *Case Number:* | **2019-011975PCA** [Board File No. 190548] |
| *Initiated by:* | Supervisor Haney / Introduced May 14, 2019 |
| *Staff Contact:* | Diego Sanchez, Legislative Affairs<br>diego.sanchez@sfgov.org, 415-575-9082 |
| *Reviewed by:* | Aaron Starr, Manager of Legislative Affairs<br>aaron.starr@sfgov.org, 415-558-6362 |
| *Recommendation:* | **Approval with Modifications** |

## PLANNING CODE AMENDMENT

The proposed Ordinance would amend the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program.

### The Way It Is Now:

Fee Rates

1. The Jobs Housing Linkage Fee for Office uses is currently \$28.57/gross square foot (gsf).
2. The Jobs Housing Linkage Fee for Research and Development (Laboratory) uses is currently \$19.04/gsf.

Fulfilling the JHLF Requirements

3. To fulfill the Jobs Housing Linkage Fee (JHLF) requirements, Development Projects have the following three options:
    a. contribute a sum or land in value at least equivalent to the in-lieu fee to one or more housing developers to construct housing units;
    b. pay the in-lieu fee; or
    c. combination of the first two.
4. Development Projects within the Central SOMA Special Use District may satisfy all or a portion of the JHLF requirements via dedication of land to the City for the purpose of constructing affordable housing units.

Implementation Procedures

5. For Development Projects subject to the JHLF, the fee rate owed is the fee rate in place at time of site permit issuance.

6. The Mayor's Office of Housing and Community Development (MOHCD) annually adjusts the JHLF rate according to an indexing methodology based on housing construction costs and the price of housing in the City.
7. The JHLF Fee Schedule includes rates for Integrated PDR and Research and Development uses.

<u>MOHCD Managed Housing Funds</u>

8. MOHCD does not currently designate a separate account for 10% of all fees that it receives under the JHLF to be used to support the acquisition and rehabilitation of rent restricted affordable rental housing
9. MOHCD does not currently designate a separate account for 30% of all fee that it receives under the JHLF to be used to support the development of permanent supportive housing
10. The Small Sites Fund that MOHCD manages requires MOHCD to divert 10% of all Affordable Housing Fees received under Planning Code Section 415 to the Small Sites Fund until the Small Sites Fund reaches a total of $15 million, at which point MOHCD stops designating fees to the Small Sites Fund.

**The Way It Would Be:**

<u>Fee Rates</u>

1. The Jobs Housing Linkage Fee for Office uses would be $69.60/gsf.
2. The Jobs Housing Linkage Fee for Laboratory uses would be $46.43/gsf.

<u>Fulfilling the JHLF Requirements</u>

3. The first option to fulfill JHLF requirements would be to contribute land of equivalent value to the in-lieu fee to MOHCD. The second and third options would remain unchanged.
4. Development Projects anywhere in the City may fulfill their JHLF requirements via land dedication to the City for the purpose of constructing affordable housing units.

<u>Implementation Procedures</u>

5. Development Projects subject to the JHLF, receiving a Planning Commission or Planning Department approval on by December 31, 2019 stating that the project would be subject to any new JHLF adopted prior to procurement of a Certificate of Occupancy or a Final Completion, and not having procured a Certificate of Occupancy or Final Completion as of the effective date of the proposed Ordinance would be required to pay the difference between the amount of JHLF fees assessed at the time of site permit issuance and any additional amounts due under the new JHLF before the City issues a Certificate of Occupancy or Final Completion.
6. The Controller would annually adjust the JHLF rate based on the Annual Infrastructure Construction Cost Inflation Estimate.
7. The JHLF Fee Schedule would eliminate a rate for Integrated PDR uses, which are no longer defined in the Planning Code or allowed in any zoning district and rename the Research and Development use to "Laboratory" use.

<u>MOHCD Managed Housing Funds</u>

8. MOHCD would be required to establish an account into which 10% of all fees that it receives under the JHLF would be used to support the acquisition and rehabilitation of rent restricted affordable rental housing.

9. MOHCD would be required to designate a separate account for 30% of all fee that it receives under the JHLF to be used to support the development of permanent supportive housing
10. The size of the Small Sites Fund would no longer be limited to $15 million and MOHCD would be allowed to designate larger amounts to the Small Sites Fund

## BACKGROUND

San Francisco has applied development impacts fees on new non-residential uses since the mid 1980's. The Office Affordable Housing Production Program (OAHPP), in effect until the mid-1990's, required office developers to either build affordable housing or pay an in-lieu fee. The magnitude of the fee was established in relation to the costs of offsetting the demand for housing that new office employment created.

The Jobs-Housing Linkage Fee (JHLF), in place since 1996, is the successor to the OAHPP. The JHLF applies to development projects with environmental evaluation applications filed after January 1, 1999 that increase by 25,000 or more gross square feet (gsf) of any combination of Entertainment, Hotel, Integrated PDR, Office, Research and Development, Retail and/or Small Enterprise Workspace uses. Each of these use types has a different JHLF rate. Once the Planning Department has determined the net additional gsf of each use type subject to the JHLF, a project sponsor has three options to fulfill its JHLF requirements. The first is to contribute a sum or land in value at least equivalent to the in-lieu fee to one or more housing developers to construct housing units; the second is to pay the in-lieu fee; and the third is some combination of the first two. When an in-lieu fee option is elected, the fees typically become due prior to the issuance of the first construction document.

## ISSUES AND CONSIDERATIONS

### Updating and increasing the JHLF

The JHLF rate for each applicable use type is updated yearly. Planning Code Section 413.6 tasks the Mayor's Office of Housing (MOH) with annually adjusting the fee rate according to an indexing methodology based on housing construction costs and the price of housing in the City. This method is published in MOH's Procedures Manual for the Residential Inclusionary Affordable Housing Program. Only the JHLF and the Inclusionary Affordable Housing Fee rates are adjusted by MOH. Other development impact fees are adjusted by the Controller. In typical years the JHLF rate, like other development impact fee rates, increases above the previous year's rate.

The JHLF rate may also be adjusted apart from annual indexing. For these increases the City relies on both legal and economic analyses to inform any changes. The first analysis, a legal requirement pursuant to the California State Mitigation Fee Act,[1] is a Jobs Housing Nexus Analysis. The previous Jobs Housing Nexus Analysis the City commissioned was published in 1997. The Jobs Housing Nexus Analysis, like all nexus analyses, must be found consistent with the six requirements of the California State Mitigation Fee Act. In meeting those six requirements, the May 2019 Jobs Housing Nexus Analysis established the relationship between construction of new non-residential buildings, the commensurate added employment and the increased demand for affordable housing. It also established the basis for

[1] Government Code Section 66000, (Mitigation Fee Act)

calculating the JHLF rate that could be imposed on non-residential projects in a manner satisfying State law.[2] This Nexus did not, however, provide recommendations on precise JHLF rates.

The May 2019 Nexus includes notable methodological changes and updates to underlining data for the calculations, resulting in a nexus that legally justifies a significantly higher rate than that of the 1997 study. The most notable methodological change was to assume that all workers in new commercial buildings would live in San Francisco. This contrasts with the 1997 study which assumed that 45% of workers would live elsewhere and commute into the City. This change is consistent with other recently completed studies statewide. Other updates include reflecting the modestly higher density of office workers in contemporary buildings based on new analysis (240 gsf per worker (2019) vs 276 gsf per worker (1997)) and updates to the income distribution of workers in the various industry sectors. The compounding effect of these changes with the substantially higher cost of building affordable housing today compared to 1997 results in a maximum *legally justified* nexus amount that is substantially higher than that from the 1997 study.

The second analysis the City relies on to adjust JHLF rates, or any development impact fee, is a feasibility assessment. The purpose of a feasibility assessment is to understand how different fee rates affect the financial feasibility of prototypical development projects that could be expected in different conditions in San Francisco, including buildings of different scales and locations. Underlying this assessment is the policy rationale that new development fee rates should be set to typically provide for reasonable financial feasibility. A consultant feasibility assessment was commissioned by the City this year to analyze how JHLF rate increases for six office development prototypes, including project typologies currently in the pipeline, affect their feasibility.[3] This assessment found that under certain market conditions, including an assumption of reduced land values and construction costs as well as future increased commercial rents, some modeled office prototypes remain feasible with up to a $10/gsf increase in the JHLF. This would result in a $38.57/gsf total JHLF rate for office projects. Planning Department Staff is unaware of any feasibility assessments analyzing Laboratory uses.

Imposing development impact fee rates above those found feasible would postpone or halt the construction of a Development Project. Any public benefit revenue or public improvements that were expected from such projects would not materialize and would necessarily be postponed or abandoned until such time as market conditions or policy changes make the rates feasible. This is particularly notable for area plans, like the recently approved Central SOMA Plan, that depend on development impact fees and other revenue mechanisms related to new development for financing public benefits and infrastructure. In that case, hundreds of millions of dollars' worth of public recreation and open space projects, pedestrian and bicycle safety improvements, cultural preservation, *and* affordable housing

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[2] Jobs Housing Nexus Analysis, May 2019:
https://sfgov.legistar.com/View.ashx?M=F&ID=7297881&GUID=36D31872-977F-4EC2-A2FE-CDD21E62D99F

[3] Jobs Housing Linkage Fee Update Development Feasibility Assessment, June 2019:
https://sfgov.legistar.com/View.ashx?M=F&ID=7297879&GUID=57038818-AA04-4FBD-9854-8F07B79963E8

would not materialize with an infeasible rate. Similarly, increasing development impact fees for uses without understanding the maximum feasible rate is not a fully informed action.

### Applying new JHLF rates to projects with site permits

Under current code standards, JHLF rates imposed on a Development Project are the rates in place when the Development Project secures its site permit. This is standard for most development impact fees and provides a measure of certainty for Development Project feasibility. Diverging from this practice should be done with care, especially if the goal is to apply increased rates to Development Projects on the verge of securing site permits. This would include many projects in the Central SOMA Area Plan. For example, when selecting dates tied to Planning Commission approvals or Ordinance effective dates to establish new rate application, it makes sense to select dates that are far into the future given the propensity for delays. This can close loopholes and avoid unintended consequences and confusion when collecting the JHLF.

### Racial and Social Equity Analysis

Assuming the rates are financially feasible, updating and increasing the JHLF for Office and Laboratory uses augments available resources that fund affordable housing projects throughout the City. Many of these projects will be in neighborhoods with a large presence of communities of color, such as the SOMA, Mission and Bayview/Hunters Point. This aligns with the Area Plan goals that call for providing additional resources for affordable housing and for developing affordable housing in these neighborhoods.[4] By providing new resources to expand the stock of affordable housing in communities of color the proposed Ordinance works to further racial and social equity.

### General Plan Compliance

The proposed Ordinance is in alignment with the relevant General Plan Objectives and Policies. For example, by updating and increasing the JHLF the Ordinance will help expand the financial resources available for permanently affordable housing, which is a policy found in the Housing Element.

### Implementation

The Department has determined that this Ordinance will not impact our current implementation procedures.

## RECOMMENDATION

The Department recommends that the Commission *approve with modifications* the proposed Ordinance and adopt the attached Draft Resolution to that effect. The Department's proposed modification is as follows:

1. Amend JHLF rates according to feasibility assessments.

[4] Mission Area Plan; Objective 2.1, Policy 2.1.2 and Objective 2.3, Policy 2.3.5; Bayview Hunters Point Area Plan, Objective 6, Policy 6.1; Western SOMA Area Plan Objective 3.5, Policy 3.5.5.

## BASIS FOR RECOMMENDATION

The Department supports the overarching aims of the Ordinance. The City needs to periodically analyze its development impact fees to assure that they reflect the latest relationship between non-residential uses and the demands they create. Updating the JHLF rate is important given that the fee rate has not been holistically analyzed in approximately two decades. Further refining how Development Projects may fulfill their JHLF requirements and how the fee program is implemented, including who and how the fee rate is set, are also important amendments. The Department does have concerns about particular proposed changes and is making the following recommendation:

**Recommendation 1: Amend JHLF rates according to feasibility assessments.** Development impact fee rates should be set in accordance with feasibility assessments. This assures that the City captures as much value from new Development Projects without jeopardizing their viability. In this way the City gains both the new Development Project and associated impact fees to fund public infrastructure and benefits. The City has a feasibility assessment for Office uses that recommends a rate no higher than $38.57/gsf. Unless a newer or separate study can demonstrate a higher feasible rate, the rates should be set reflective of this information. Staff is unaware of a similar assessment for Laboratory uses. Without a current feasibility assessment of Laboratory uses, Staff cannot recommend increasing rates for this use.

## 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 amendments are not defined as a project under CEQA Guidelines Section 15060(c)(2) and 15378 because they do not result in a physical change in the environment.

## PUBLIC COMMENT

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

**Attachments:**

| | |
|---|---|
| Exhibit A: | Draft Planning Commission Resolution |
| Exhibit B: | Jobs Housing Nexus Analysis, May 2019 |
| Exhibit C: | Jobs Housing Linkage Fee Update Development Feasibility Assessment, June 2019 |
| Exhibit D: | Board of Supervisors File No. 1905448 |

# Increasing the Jobs-Housing Linkage Fee: Economic Impact Report

CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

Office of Economic Analysis

Item #190548

10.21.2019

# Introduction



- The proposed legislation would raise the City's Jobs-Housing Linkage Fee (JHLF) for newly-constructed office and laboratory space.
- The City assesses the JHLF on new non-residential development; the fee revenue is dedicated to affordable housing programs.
- A nexus study supporting the fee, which first prepared in 1997, was updated in May, 2019. The maximum fee supported by the nexus rose as a result of the updated study, and the proposed legislation has been introduced as a consequence.
- The current version of the proposed legislation would raise the fee for new offices from $28.57 to $69.60 per gross square foot. For new laboratory space, the fee would rise from $19.04 to $46.43.
- The legislation has the potential to raise substantial new revenues for affordable housing, while also increasing development costs in a way that could threaten future employment growth. Consequently, the Office of Economic Analysis (OEA) has prepared this economic impact report.

# The Nexus Study

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- Two existing studies have examined the potential impact of the proposed legislation: a nexus study prepared by Keyser Marston Associates,[1] and a feasibility study prepared by Economic and Planning Systems Inc. (EPS).[2]
- The JHLF is a development impact fee which, under California law, must be rationally-related to a negative consequence of new development. A nexus study is required in order to demonstrate that the fee charged to a project does not exceed the magnitude of the problem caused by the development.
- While most impact fees seek to fund expansions to public infrastructure, in order to maintain an existing level-of-service of that infrastructure, the JHLF nexus study is based on a perceived problem in the housing market that is believed to be created by employment growth in the city.
- The study estimated the number of low- and moderate-income worker households working in new commercial space of various types. A per-square-foot charge, for each type of non-commercial development, is obtained after multiplying the household numbers by the City's average cost of producing a permanently-affordable housing unit.

# The Nexus Study (Continued)



- Thus, the nexus study aims to estimate the fee that would be necessary to fully mitigate the impact of different types of commercial development on affordable housing, at a "level-of-service" at which each new low/moderate income worker household would occupy a permanently-affordable housing unit within San Francisco.
- The nexus study is not an economic impact report. It does not address any other ways in which non-residential development affects the city's economy, such as its effect on the employment or income of city residents.

# The Feasibility Study



- The nexus study is also not concerned with the question of whether an increase to the JHLF will reduce the fiscal feasibility of new development, or the broader economic implications of that risk.
- To address this issue, the Office of Economic and Workforce Development published a feasibility study that assessed the impact of a $10 per square-foot increase in the JHLF, which was the level of increase proposed in the initial version of this legislation.
- After preparing sample pro-forma models for six different office projects in areas where new development is planned, the feasibility study found that office development is currently infeasible, even without the proposed fee increase.
- It concluded, however, that "once market conditions improve sufficiently to support the feasibility of office development, the analysis suggests that some modest level of fee increase may be viable."[3]
- The "market conditions" referred to involve a 25% decrease in the land costs a developer would face, and a 13% increase in the rents tenants would be willing to pay. The study does not discuss whether or when such a change in market conditions might occur.

# The Office Development Model



- It is unclear, from the feasibility study, when and if market conditions can change to make the current $40/sf proposed fee increase for office development viable.
- Because the issue of how the fee increases will affect future development and employment growth is of central importance to its economic impact, a different analytical approach is necessary for this report.
- The OEA worked with the Blue Sky Consulting Group to develop a model that would estimate how sensitive office development in the city is to changes in development costs, such as a fee increase.
- The model, which is incorporates information on most parcels in the city[4], and office permitting activity since 2001, is similar to ones built by the OEA and Blue Sky to study the impact of fee increases on housing production in the city[5]. Full details on the model are provided in the Appendix.
- Using the model, we can estimate how office development, and employment, across the city may change as a result of the fee increase. It can also estimate how JHLF revenue may change.

# Economic Impact Factors



- The proposed legislation is expected to affect the local economy in two major ways:
  1. The proposed fee increase will raise the development cost of office and laboratory space and as a result some projects may become financially infeasible. As a result of that, the city would have less development, less space for workers, and less overall employment on an ongoing basis. To the extent development is curtailed because of the higher fee, one-time construction spending on office and laboratory space would decline as well.
  2. The fee increase should increase funding for affordable housing in the city. Depending on how this funding is used, it could increase construction and rehabilitation spending, and/or increase consumer spending, to the extent the revenue is used to make existing housing more affordable for low- and moderate-income households, and freeing up their income to be spent elsewhere in the local economy.
- The net economic impact will depend upon the relative size of these two impact factors.

# Estimating the Impact on Office Development



- The model described earlier was used to estimate the sensitivity of office development to changes in the JHLF. Because there is much less laboratory space in the city, the proposed legislation's impact on laboratories is not considered in this report.
- The model found a statistically-significant negative relationship between buliding construction costs[6], and the likelihood of a building permit for new office construction being issues for a given parcel in a given year.
- Based on estimates of San Francisco office development costs published by Turner & Townsend of $625/sf, and the EPS feasibility study average of $717/sf, we calculated the proposed fee increase as equivalent to a 6% increase in non-land development costs[7].
- The model projects that a 6% increase in development costs would lead to a 0.2% decline in overall office space in the city, equivalent to a reduction of 125,000 – 140,000 square feet per year, on average.
- Because office development is highly sensitive to the business cycle, the impact could be higher or lower in any particular year.

# Office Employment and Construction Impacts



- To obtain an estimate of office employment lost due to office construction that is made infeasible by the fee increase, this study uses the employment density figure that is used in the updated nexus study, which is 238 square feet of office space per employee.
- An average annual loss of 125,000 to 140,000 square feet of office space would lead to a loss of 520 to 585 office jobs, at that employment density.
- To estimate the impact of the loss of feasibility on office construction, we used the same construction spending range of $625 to $717 per gross square foot, from the Turner & Townsend and EPS sources. The annual decline in office construction spending is estimated at $61 million - $87 million per year.

# Impact on JHLF Revenue



- Despite the decline in office development, the increase in the fee is projected to lead to a $8 million - $9 million increase in fee revenue, as shown in the table below. The model's projects, as a baseline, an average of 430,000 sf of new office per year, under condition. With the higher fee, that would fall to 290,000 – 305,000.

| Inputs | Baseline | Under Proposed Legislation | Difference |
|---|---|---|---|
| Annual New Office Development (sf) | 430,000 | 290,000-305,000 | 125,000 – 140,000 |
| Applicable JHLF | $28.57 | $69.60 | $41.23 |
| JHLF Revenue ($M) | $12.3 | $20.2 - $21.2 | $8 - $9 |

- The legislation directs that 10% of the fee's revenues are to be devoted to the acquisition and rehabilitation, and another 30% to the development of permanent supportive housing. This analysis assumes the remaining 60% is used for the construction of permanently-affordable housing.

# REMI Model Simulation: High and Low Scenarios





- The OEA uses the REMI model to estimate the net economic impact of legislation, based on the economic impact factors already discussed.
- In a low-impact scenario, based on a loss of 125,000 sf of office development and most spending on construction, the estimate is based on:
  - a loss of 520 office jobs, associated with the low-end estimate of lost office space, split proportionally between office-using industries[9].
  - a loss of $61 million in office construction spending.
  - a gain of $9 million in fee revenue, assumed to be spent on construction.
- In a high-impact scenario, based on a loss of 140,000 sf of office development and more spending on housing subsidy, the inputs are:
  - a loss of 585 office jobs, associated with the high-end office loss estimate, split among office-using industries as above.
  - a loss of $82 million in office construction spending.
  - a gain of $8 million in fee revenue, assumed to be spent on construction.

# Economic Impact Assessment

- We project the proposed legislation will result in a net job loss of between 1,275 and 1,500 jobs, representing between 0.1% and 0.2% of all jobs in the city, on average over the next 20 years.
- The impact on the city's GDP is likewise projected to be negative, to the tune of $280-$330 million, in today's dollars.
- About 60% of the job losses will be concentrated in the office-using industries that are directly impacted by the fee. Another 25% of the losses are projected to occur in construction, with the remainder spread across other industries. No sector is projected to add jobs as a result of the proposed legislation.
- Housing prices are projected to decline, by 0.1% - 0.2%, but this is due to a proportional loss of personal income and population, not because housing would become broadly more affordable.
- The additional participants in the the expanded affordable housing programs would clearly benefit, and other low- and moderate-income residents may also benefit if the growth in affordable housing lessens competition at the low end of the private housing market.

# Appendix: Office Development Model Methodology



The OEA's consultants, Blue Sky Consulting Group, analyzed the data set described on pages 14-15 to determine which factors are most useful for estimating the probability that a San Francisco parcel will be developed into additional office space in a given year. To do this, they used a common statistical technique called logistic regression analysis. A logistic regression is a special type of regression used to understand the relationship between a dependent binary (yes or no) variable, and one or more independent or explanatory variables. Here, the dependent variable is set equal to a one if the parcel added office space in a specific year, and otherwise set equal to zero.

To identify those explanatory variables that are most useful for understanding when and where office space is added, they developed a base model that included those variables most likely to be closely associated with such development based on economic theory. Those variables include office rents, construction costs, zoning restrictions, current land use, the size of the potential development given height and density restrictions, and the relative increase for the potential development given the existing development on the site. With this as the base model, they tested the impact of adding other explanatory variables such as various stock market indexes, interest rates, total employment and the unemployment rate for San Francisco, etc. These tests were evaluated based on their overall impact to the model as well as their individual predictive power. Many of these added economic variables were highly correlated with office rents and construction costs while others did not have a statistically significant relationship with office development. These variables were therefore excluded from the final model. Throughout these tests, however, it was clear that office rents and construction costs were consistently useful predictors of office development, and the nature of this relationship was quite stable regardless of the inclusion or exclusion of these additional explanatory variables.

After completing these tests, the final models consisted of the following explanatory variables. Their impact on the likelihood of office development happening (positive or negative) is shown in parentheses.

1. a dummy variable for whether or not the parcel had 1 or more housing units (negative),
2. the average asking rent for San Francisco from REIS (positive),
3. the SF building cost index from Engineering News Record (negative)
4. the potential building envelope, given height and bulk controls (positive)
5. the ratio of the potential building envelope to the existing square footage (positive), and
6. ten dummy variables for the type of zoning for the parcel. (positive and negative)

# Appendix: Office Development Model Data Sources



The data included in the analysis consisted of the following:

1. Permit Data—Blue Sky reviewed the City's permit data to identify projects that added office space. The data set includes all new construction for office space as well as alterations that were identified as creating new office space via expansion or conversion. All permits for new construction of office space were included. To determine which alteration permits to include, we reviewed the description for all projects that either had the term "convert" or "erect" in the description or for which the costs were $250K or higher. Based on a review of the permit's description, we excluded any permits that were for tenant improvements of existing office space or other work that did not result in new office space being produced. Finally, we limited the office developments used in the analysis to only include permits issued between 2001 and 2018, the years for which parcel data are available. This resulted in 136 office development projects, or 85 new construction projects and 51 alteration/conversion projects.

2. Parcel-Specific Data—Data for every parcel in San Francisco were collected for each year from 2001 through 2018. This information includes attributes which did not change over time such as the parcel's land area and neighborhood, as well as characteristics that may have changed, such as the parcel's zoning requirements or maximum allowable building height. The basis for our list of parcels was the current "City Lots" database available from the San Francisco Planning Department. We then integrated annual files for 2001 through 2018 for zoning, height and bulk districts, planning districts, special use districts, and land use. In addition, because parcel identifiers may change over time as parcels are combined or divided, the Planning Department also provided a file that recorded parcel number changes over time. Finally, parcels that did not have any zoning designation were reviewed and those that were determined to be located in water were removed.

3. Demographic Data—Demographic data were also integrated for regions within the City. Specifically, data for education level and per capita income were collected by census tract from the Decennial Census for 2000 and 2010 and supplemented with annual data from the American Community Survey for 2009-2018. Where annual data were not available, values were interpolated. GIS software was then used to map parcels to census tracts so that every parcel could be assigned the appropriate annual estimates of education level and per capita income.

4. Annual Economic Data—Various measures of construction costs and office rents were also collected and integrated to account for changes that would have a direct impact on the San Francisco market for office space over time, as well as changes in general economic conditions that may influence the amount of development. These economic indicators included data specific to the City, such as total employment and the unemployment rate in San Francisco, as well as data for the greater San Francisco area, including the total employment and unemployment rate and the number and value of residential building permits issued for the San Francisco Metropolitan Statistical Area (MSA). Also integrated were numerous measures of general economic activity and consumer sentiment, including various stock market indices such as the Dow Jones Total Stock Market Index (DJ-TSM), S&P 500, and the NASDAQ; data on venture-backed companies in Northern California from the Sand Hill Index of Venture Capital; interest rates; and measures of consumer sentiment as reported by both the Conference Board and the University of Michigan. Finally, data for various price and cost indices specific to San Francisco were integrated, including an annual index of asking and effective office rents from Real Estate Solutions by Moody's Analytics (REIS) and a Building Cost Index and a Construction Cost Index prepared specifically for San Francisco by the Engineering News Record (ENR).

These data sources were combined to form a single data set, with one record for each of the City's current "base lot" parcels for each year from 2001 to 2018.

# End Notes



[1] Keyser Marston Associates, "Jobs Housing Nexus Analysis: San Francisco California", Prepared for the City and County of San Francisco, May 2019.

[2] Economic & Planning Systems, "Final Memorandum: Jobs-Housing Linkage Fee Update Development Feasibility Assessment", Prepared for the City and County of San Francisco, June 2019.

[3] Economic & Planning Systems, page 3.

[4] Excluding public parcels, and parcels subject to a development agreement.

[5] San Francisco Controller's Office: "Increasing Inclusionary Housing Requirements: Economic Impact Report", February, 2016; "Inclusionary Housing Working Group: Preliminary Report", September 2016.

[6] As measured by the Building Cost Index published for San Francisco by Engineering News Record.

[7] Turner & Townsend, "International Construction Market Survey 2019".

[8] Conversions to office from other uses has contributed to the growth in the city's office space in the past, but these conversions are not considered in this model.

[9] Office-using industries include Information, Financial Services, Real Estate, Business & Professional Services, and Administrative and Support Services.

# Staff Contacts

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The assistance of the Blue Sky Consulting Group is gratefully acknowledged. All errors and omissions are solely the responsibility of the Office of Economic Analysis.

FILE NO. 190548

## REVISED LEGISLATIVE DIGEST
(Amended in Committee, 10/21/2019)

[Planning Code - Planning Code - Jobs Housing Linkage Fee and Inclusionary Housing]

**Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by clarifying the indexing of the fee, adding options for complying with the fee, phasing increases to the fee, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302**

### Existing Law

Consistent with the California Mitigation Fee Act, the Planning Code provides that certain commercial developments must pay a Jobs-Housing Linkage fee ("JHLF"). The Jobs-Housing Linkage program requires projects constructing new or expanded non-residential buildings of more than 25,000 square feet of development to offset the demand for new affordable housing created by those projects.

The JHLF is codified in Planning Code Section 413.1 *et seq.* Section 413.5 allows a project sponsor to comply with the JHLF by either making a payment, or dedicating land to a housing developer. While most citywide development fees are indexed annually according to the Annual Infrastructure Construction Cost Inflation Estimate, as set forth in Planning Code Section 409, the JHLF is indexed according to procedures developed by the Mayor's Office of Housing and Community Development, pursuant to Section 413.6. Section 413.7 allows projects within the Central SoMa Special Use District to comply with the JHLF by offering land to the City. Projects may receive credit up to the value of the land donated.

Typically, a project must pay any development fees before the issuance of the first construction document. Any funds received pursuant to the JHLF are deposited into the Citywide Affordable Housing Fund.

The Small Sites Funds is a program under the City's Inclusionary Housing program to support acquisition and rehabilitation of "Small Sites," as codified in Planning Code Section 415.1 *et seq.* Funding for the Small Sites program is capped at $15 million.

## Amendments to Current Law

This ordinance would make the following amendments to the JHLF.

- Align the indexing of the JHLF with other fees. Most citywide development fees are indexed according to the Annual Infrastructure Construction Cost Inflation Estimate, pursuant to the Section 409. This amendment would remove the exception to that requirement for the JHLF codified in Section 409, and Section 413.6
- Streamline the findings in Section 413.1. This ordinance would update many of the historical findings related to the JHLF.
- Allow a project sponsor to comply with the JHLF by: paying a fee to the City; offering the City land of equal value to the proposed fee, or a combination of fee and land dedication to the City. It no longer permits a project sponsor to comply with the JHLF by offering to pay a fee or offer land to a housing developer.
- Raise the JHLF for Office use to $69.60, and Laboratory use to $46.43.
- Require that certain projects pay any additional amounts due under the JHLF prior to the first Certificate of Occupancy.
- Set aside 10% of the fees received through the JHLF for the preservation and acquisition of rent restricted affordable housing, and 30% for permanent supportive housing.

The ordinance would amend the Small Sites Funds under the Inclusionary Housing program by removing the $15 million cap.

At the Land Use Committee on October 21, 2019, the sponsor introduced amendments phasing the increases to the fee for Office Use, and Laboratory Use.

## Background Information

This ordinance was initially introduced on May 14, 2019. That ordinance made proposed amendments to the findings of section 413.1, and raised the fee for office projects to $38.00. Substitute legislation was introduced on September 10, 2019. The City published an updated Nexus Study by Keyser Marsten Associates, Inc. in May 2019, and a Feasibility Report by Economic & Planning Systems, Inc. in June 2019. Both the Nexus Study and Feasibility Report are in this Board file.

On September 10, 2019, the sponsor introduced substitute legislation. Following a hearing at the Planning Commission on September 19, 2019, additional amendments were introduced at the Land Use Committee on October 21, 2019.

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[Planning Code - Planning Code - Jobs Housing Linkage Fee and Inclusionary Housing]

**Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by ~~allowing~~ clarifying the indexing of the fee, adding options for complying with the fee, phasing increases to the fee~~requiring payment of the fee no later than at the time of first certificate of occupancy~~, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to 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 comply with the California Environmental Quality Act (California Public Resources Code Sections 21000 et seq.). Said determination is on file with the Clerk of the Board of Supervisors in File No. 190548 and is incorporated herein by reference. The Board affirms this determination.

(b) On September 19, 2019, the Planning Commission, in Resolution No. 20522, adopted findings 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. 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. 190548, and is incorporated herein by reference.

(c) Pursuant to Planning Code Section 302, the Board finds that this Planning Code amendment will serve the public necessity, convenience, and welfare for the reasons set forth in Planning Commission Resolution No. 20522, and the Board incorporates such reasons herein by reference.

Section 2. Article 4 of the Planning Code is hereby amended by revising Sections 249.78, 329, 409, 413.1, 413.4, 413.6, 413.7, 413.8, 413.9, 413.10, ~~and~~ 415.5, and 424.4, and deleting Section 413.5, to read as follows:

**SEC. 249.78. CENTRAL SOMA SPECIAL USE DISTRICT.**

(e) **Community Development Controls.**

* * * *

(2) **Land Dedication.**

(A) Residential projects in this SUD may opt to fulfill the Inclusionary Housing requirement of Section 415 through the Land Dedication alternative contained in Section 419.6.

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(B) Non-Residential projects in this Special Use District may opt to fulfill their Jobs-Housing Linkage Fee requirement of Section 413 through the Land Dedication alternative contained in Section 413.6~~7~~.

* * * *

**SEC. 329. LARGE PROJECT AUTHORIZATION IN EASTERN NEIGHBORHOODS MIXED USE DISTRICTS.**

* * * *

(e) **Exceptions for Key Sites in Central SoMa.**

* * * *

(3) **Controls.** Pursuant to this Section 329(e) and the Key Site Guidelines adopted as part of the Central SoMa Area Plan, the Planning Commission may grant exceptions to the provisions of this Code as set forth in subsection (d) above and may also grant the exceptions listed below for projects that provide qualified amenities in excess of what is required by the Code.

(A) **Qualified Amenities.** Qualified additional amenities that may be provided by these Key Sites include: affordable housing beyond what is required under Section 415 *et seq.*; land dedication pursuant to Section 413.6~~7~~ by non-residential projects for construction of affordable housing in partial or full satisfaction of the Jobs-Housing linkage Fee, or in excess of that required to satisfy the Jobs-Housing linkage Fee, provided that if the land dedication is in partial satisfaction of that Fee, the balance of the Fee shall be paid with the land value calculated as set forth in Section 413.6~~7~~; land dedication pursuant to Section 413.6~~7~~ by residential projects for construction of affordable housing in partial or full satisfaction of the Alternatives to the Inclusionary Housing Fee, or in excess of that required to satisfy the Alternatives to the Inclusionary Housing Fee, pursuant to Section 419.5, to the extent permitted by state law, provided that if the land dedication is in partial satisfaction of that Fee, the balance of the Fee shall be paid with the land value calculated as set forth in Section 413.6~~7~~; PDR at a greater amount and/or lower rent than is otherwise required under Sections 202.8 or 249.78(c)(5); public parks, recreation centers, or plazas; and improved pedestrian networks.

**SEC. 409. CITYWIDE DEVELOPMENT FEE REPORTING REQUIREMENTS AND COST INFLATION FEE ADJUSTMENTS.**

(a) **Citywide Development Fee and Development Impact Requirements Report**. In coordination with the Development Fee Collection Unit at DBI and the Director of Planning, the Controller shall issue a report within 180 days after the end of each even-numbered fiscal year that provides information on all development fees established in the Planning Code collected during the prior two fiscal years organized by development fee account and all cumulative monies collected over the life of each development fee account, as well as all monies expended. The report shall include: (1) a description of the type of fee in each account or fund; (2) the beginning and ending balance of the accounts or funds including any bond funds held by an outside trustee; (3) the amount of fees collected and interest earned; (4) an identification of each public improvement on which fees or bond funds were expended and amount of each expenditure; (5) an identification of the approximate date by which the construction of public improvements will commence; (6) a description of any inter-fund transfer or loan and the public improvement on which the transferred funds will be expended; and (7) the amount of refunds made and any allocations of unexpended fees that are not refunded. The report shall also provide information on the number of projects that elected to satisfy development impact requirements through the provision of "in-kind" physical improvements, including on-site and off-site BMR units, instead of paying development fees. The report shall also include any annual reporting information otherwise required pursuant to the California Mitigation Fee Act, *California* Government Code *Sections* 66001 *et seq*. The report shall be presented by the Director of Planning to the Planning Commission and to the Land Use & ~~*Economic Development*~~ *Transportation* Committee of the Board of Supervisors. The ~~*R*~~*r*eport shall also contain information on the Controller's annual construction cost inflation adjustments to development fees described in subsection (b) below, as well as information on MOH*CD*'s separate adjustment of the ~~*Jobs-Housing Linkage and*~~ Inclusionary Affordable Housing ~~*f*~~*F*ee~~*s*~~ described in Section~~*s 413.6(b) and*~~ 415.5(b)(3).

(b) **Annual Development Fee Infrastructure Construction Cost Inflation Adjustments.** Prior to issuance of the Citywide Development Fee and Development Impact Requirements Report referenced in subsection (a) above, the Controller shall review the amount of each development fee established in the ~~*San Francisco*~~ Planning Code and, with the exception of the ~~*Jobs-Housing Linkage Fee in Section 413 et seq. and the*~~ Inclusionary Affordable Housing Fee in Section 415 *et seq.*, shall adjust the dollar amount of any development fee on an annual basis every January 1 based solely on the Annual Infrastructure Construction Cost Inflation Estimate*. The Office of the City Administrator's Capital Planning Group shall publish the Annual Infrastructure Construction Cost Inflation Estimate, as* ~~*published by the Office of the City Administrator's Capital Planning Group and*~~ approved by the City's Capital Planning Committee*,* no later than November 1 every year, without further action by the Board of Supervisors. The Annual Infrastructure Construction Cost Inflation Estimate shall be updated ~~*by the Capital Planning Group on an annual basis and*~~ no later *than* November 1 every year~~*, in consultation with the Capital Planning Committee,*~~ in order to establish a reasonable estimate of construction cost inflation for the next calendar year for a mix of public infrastructure and facilities in San Francisco. The Capital Planning Group may rely on past construction cost inflation data, market trends, and a variety of national, state, and local commercial and institutional construction cost inflation indices in developing ~~their~~ *its* annual estimates for San Francisco. The Planning Department and the Development Fee Collection Unit at DBI shall provide notice of the Controller's development fee adjustments, including the Annual Infrastructure Construction Cost Inflation Estimate formula used to calculate the adjustment, and MOH*CD*'s separate adjustment of the ~~Jobs-Housing Linkage and~~ Inclusionary Affordable Housing Fee~~s~~ on the Planning Department and DBI website*s* and to any interested party who has requested such notice at least 30 days prior to the adjustment taking effect each January 1. The ~~Jobs-Housing Linkage Fee and the~~ Inclusionary Affordable Housing ~~f~~*F*ee~~s~~ shall be adjusted under the procedures established in Section~~s 413.6(b) and~~ 415.5(b)(3).

**SEC. 413.1. FINDINGS.**

The Board hereby finds and declares as follows:

~~A.~~ *(a)* Large-scale entertainment, hotel, office, *laboratory*~~research and development~~, and retail developments in the City ~~and County of San Francisco~~ have attracted and continue to attract additional employees to the City, and there is a causal connection between such developments and the need for additional housing in the City, particularly housing affordable to households of lower and moderate income. Such commercial uses in the City benefit from the availability of housing close by for their employees. However, the supply of housing units in the City has not kept pace with the demand for housing created by these new employees. Due to this shortage of housing, employers will have difficulty in securing a labor force, and employees, unable to find decent and affordable housing, will be forced to commute long distances, having a negative impact on quality of life, limited energy resources, air quality, social equity, and already overcrowded highways and public transport.

~~B.~~ *(b)* There is a low vacancy rate for housing affordable to persons of lower and moderate income. ~~*In part, this low vacancy rate is due to factors unrelated to large-scale commercial development, such as high interest rates, high land costs in the City, immigration from abroad, demographic changes such as the reduction in the number of persons per household, and personal, subjective choices by households that San Francisco is a desirable place to live.*~~ This low vacancy rate is ~~*also*~~ due in part to large-scale commercial developments, which have attracted and will continue to attract additional employees and residents to the City. Consequently, some of the employees attracted to these developments are competing with present residents for scarce, vacant affordable housing units in the City. Competition for housing generates the greatest pressure on the supply of housing affordable to households of lower and moderate income. In San Francisco, office or retail uses of land generally yield higher income to the owner than housing. Because of these market forces, the supply of these affordable housing units will not be expanded. Furthermore, Federal and State housing finance and subsidy programs are not sufficient by themselves to satisfy the lower and moderate income housing requirements of the City.

~~C.~~ *(c) The City has consistently set housing production goals to address the regional and citywide forecasts for population, households, and employment. Although San Francisco has seen increased housing production each successive decade since the 1970s, the City has not been able to close the gap between its housing production goals and actual production.* ~~*As demonstrated in the "Jobs Housing Nexus Analysis" prepared by Keyser Marston Associates, Inc. in June 1997, construction of new housing units in the City decreased to a low of 288 units in 1993 compared to an average annual production of 1,330 units during the years 1980 through*~~

~~*1995. Overall housing production in the City should average approximately 2,200 units a year to keep up with the City's share of regional housing demand.*~~

~~*D.*~~*(d)* There is a continuing shortage of low- and moderate-income housing in San Francisco. ~~*Affordable housing production in the City averaged approximately 340 units per year during the years 1980 through 1995. However, the demand for new affordable housing will be approximately 1,300 units per year for the years 2000 through 2015.*~~

~~*E. Objective 1, Policy 7 of the Residence Element of the San Francisco General Plan calls for the provision of additional housing to accommodate the demands of new residents attracted to the City by expanding employment opportunities caused by the growth of large-scale commercial activities in the City. Such development projects should assist in meeting the City's housing needs by contributing to the provision of housing.*~~

~~*F.*~~ It is desirable to impose the cost of the increased burden of providing housing necessitated by large-scale commercial development projects directly upon the sponsors of the development projects by requiring that the project sponsors contribute land ~~*or money to a housing developer*~~ or pay a fee to the City to subsidize housing development as a condition of the privilege of development and to assist the community in solving those of its housing problems generated by the development.

~~*G. The required housing exaction shall be based upon formulas derived in the report entitled "Jobs Housing Nexus Analysis" prepared by Keyser Marston Associates, Inc. in June 1997. The "Jobs Housing Nexus Analysis" demonstrates the validity of the nexus between new, large-scale entertainment, hotel, office, research and development, and retail development and the increased demand for housing in the City, and the numerical relationship between such development projects and the formulas for provision of housing set forth in Section 413.1 et seq.*~~

~~*H. In lieu fees for new office construction to the City's Office Affordable Housing Production Program, were last increased in 1994 to $7.05 per square foot, based on the*~~

~~"Analysis of the OAHPP Formula prepared by the Department of City Planning in November 1994." Existing law provides for potential increases to such fees up to 20% annually based on increases to the Average Area Purchase Price Safe Harbor Limitations for New Single-Family Residences for the San Francisco Primary Metropolitan Statistical Area ("PMSA") published by the Internal Revenue Service.~~

~~I. The Internal Revenue Service last published its Average Area Purchase Price Safe Harbor Limitations for New Single-Family Residences for the San Francisco PMSA in 1994.In 1998 and again in 2000, the City contracted for an analysis of average area purchase price for the San Francisco PMSA, in lieu of IRS publication of the index. The 2000 report prepared by Vernazza Wolfe Associates for mortgage purposes, which was certified by Orrick, Herrington & Sutcliffe, indicates that the 1999 updated purchase price figures for new construction are $431,568, a 73.3% increase over the 1994 purchase price of $248,969.~~

~~J. If OAHPP fees had been increased consistent with these increases in the Average Area Purchase Price Safe Harbor Limitations for New Single-Family Residences for the San Francisco PMSA, the OAHPP in lieu fee for net new office construction would be $12.22 per square foot, or approximately 54% of the maximum derived by the "Jobs Housing Nexus Analysis" prepared by Keyser Marston Associates, Inc. in June 1997.~~

~~K.~~(e) ~~Since preparation of the Keyser Marston "Jobs Housing Nexus Analysis," the~~ The Bay Area has seen dramatic increases in land acquisition costs for housing, the cost of new housing development and the affordability gap for low to moderate income workers seeking housing. Commute patterns for the region have also changed, with more workers who work outside of San Francisco seeking to live in the City, thus increasing demand for housing and decreasing housing availability.

*(f) As the regional job center, San Francisco has historically had the highest ratio of jobs-to-housing units in the Bay Area.*

*(g) The required housing exaction shall be based upon formulas derived in a periodic jobs housing nexus analysis. Consistent with the requirements of the California Mitigation Fee Act, the jobs housing nexus analysis shall demonstrate the validity of the nexus between new, large scale entertainment, hotel, office, laboratory, and retail development and the increased demand for housing in the City, and the numerical relationship between such development projects and the formulas for the provision of housing set forth in Section 413.1 et seq.*

*(h) The Board of Supervisors has reviewed the Jobs Housing Nexus Analysis prepared by Keyser Marsten Associates, Inc., dated May 2019, which is on file with the Clerk of the Board in Board File No. 190548, and adopts the findings and conclusions of that study, and incorporates the findings by reference herein to support the imposition of the fees under Section 413.1 et seq.*

~~*L. Because the shortage of affordable housing created by large-scale commercial development in the City can be expected to continue for many years, it is necessary to maintain the affordability of the housing units constructed by developers of such projects under this program. In order to maintain the long-term affordability of such housing, the City is authorized to enforce affordability requirements through mechanisms such as shared appreciation mortgages, deed restrictions, enforcement instruments, and rights of first refusal exercisable by the City at the time of resale of housing units built under the program.*~~

~~*M. Objective 8, Policy 2 of the Residence Element of the San Francisco General Plan encourages the Commission to periodically reassess requirements placed on large-scale commercial development under the Office Affordable Housing Production Program ("OAHPP"), predecessor to the Jobs-Housing Linkage Program.*~~

**SEC. 413.4. IMPOSITION OF HOUSING REQUIREMENT.**

* * * *

(c) **Sponsor's Choice to Fulfill Requirements**. Prior to issuance of a building or site permit for a development project subject to the requirements of Section 413.1 *et seq.*, the sponsor shall elect one of the ~~*three*~~ options listed below to fulfill any requirements imposed as a condition of approval and notify the Department of their choice of the following:

(1) *Contribute land of value at least equivalent to the in-lieu fee, according to the formulas set forth in Section 413.1 et seq., to MOHCD pursuant to Section 413.6*~~*7*~~*; or* ~~*Contribute of a sum or land of value at least equivalent to the in-lieu fee, according to the formulas set forth in Section 413.1, to one or more housing developers who will use the funds or land to construct housing units pursuant to Section 413.5; or*~~

(2) Pay an in-lieu fee to the Development Fee Collection Unit at DBI according to the formula set forth in Section 413.5~~6~~; or

(3) Combine the above options pursuant to Section 413.7~~8~~.

* * * *

~~***SEC. 413.5. COMPLIANCE BY PAYMENT TO HOUSING DEVELOPER.***~~

~~*(a) With the written approval of the Director of MOH, the project sponsor may elect to pay a sum or contribute land of value at least equivalent to the in-lieu fee to one or more housing developers to meet the requirements of Section 413.1et seq. If the sponsor elects this option and the Director of MOH approves it, the housing developer or developers shall be required to construct at least the number of housing units determined by the following formulas for each type of space proposed as part of the development project and subject to Section 413.1et seq.*~~:

| | |
|---|---|
| ~~*Net Addition Gross Sq. Ft. Entertainment Space*~~ | ~~*× .000140 = Housing Units*~~ |
| ~~*Net Addition Gross Sq. Ft. Hotel Space*~~ | ~~*× .000110 = Housing Units*~~ |

| | |
|---|---|
| ~~*Net Addition Gross Sq. Ft. Office Space*~~ | ~~*× .000270 = Housing Units*~~ |
| ~~*Net Addition Gross Sq. Ft. R&D Space*~~ | ~~*× .000200 = Housing Units*~~ |
| ~~*Net Addition Gross Sq. Ft. Retail Space*~~ | ~~*× .000140 = Housing Units*~~ |

~~*The housing units required to be constructed under the above formula must be affordable to qualifying households continuously for 50 years. If the sponsor elects to contribute to more than one distinct housing development under this Section, the sponsor shall not receive credit for its monetary contribution to any one development in excess of the amount of the in-lieu fee, as adjusted under Section 413.6, multiplied by the number of units in such housing development.*~~

~~*(b) Prior to the issuance by DBI of the first site or building permit for a development project subject to Section 413.1et seq. the sponsor shall submit to the Department, with a copy to MOH:*~~

~~*(1) A written housing development plan identifying the housing project or projects to receive funds or land from the sponsor and the proposed mechanism for enforcing the requirement that the housing units constructed will be affordable to qualifying households for 50 years; and*~~

~~*(2) A certification that the sponsor has made a binding commitment to contribute an amount of money or land of value at least equivalent to the amount of the in-lieu fee that would otherwise be required under Section 413.6 to one or more housing developers and that the housing developer or developers shall use such funds or lands to develop the housing subject to this Section.*~~

~~*(3) A self contained appraisal report as defined by the Uniform Standards of Professional Appraisal Practice prepared by an M.A.I. appraiser of the fair market value of any*~~

~~land to be contributed by the sponsor to a housing developer. The date of value of the appraisal shall be the date on which the sponsor submits the housing development plan and certification to the Department.~~

~~If the sponsor fails to comply with these requirements within one year of the final determination or revised final determination, it shall be deemed to have elected to pay the in lieu fee under Section 413.6, and any deferral surcharge, in order to comply with Section 413.1et seq. In the event that the sponsor fails to pay the in lieu fee within the time required by Section 413.6, DBI shall deny any and all site or building permits or certificates of occupancy for the development project until the such payment has been made or land contributed, and the Development Fee Collection Unit at DBI shall immediately initiate lien proceedings against the sponsor's property pursuant to Section 408 of this Article and Section 107A.13 of the San Francisco Building Code to recover the fee.~~

~~(c) Within 30 days after the sponsor has submitted a written housing development project plan and, if necessary, an appraisal to the Department and MOH under Subsection(b) of this Section, the Department shall notify the sponsor in writing of its initial determination as to whether the plan and appraisal are in compliance with this Section, publish the initial determination in the next Commission calendar, and cause a public notice to be published in an official newspaper of general circulation stating that such housing development plan has been received and stating the Department's initial determination. In making the initial determination for an application where the sponsor elects to contribute land to a housing developer, the Department shall consult with the Director of Property and include within its initial determination a finding as to the fair market value of the land proposed for contribution to a housing developer. Within 10 days after such written notification and published notice, the sponsor or any other person may request a hearing before the Commission to contest such initial determination. If the Department receives no request for a hearing within such 10-day period,~~

~~the determination of the Department shall become a final determination. Upon receipt of any timely request for hearing, the Department shall schedule a hearing before the Commission within 30 days. The scope of the hearing shall be limited to the compliance of the housing development plan and appraisal with this Section, and shall not include a challenge to the amount of the housing requirement imposed on the development project by the Department or the Commission. At the hearing, the Commission may either make such revisions to the Department's initial determination as it may deem just, or confirm the Department's initial determination. The Commission's determination shall then become a final determination, and the Department shall provide written notice of the final determination to the sponsor, MOH, and to any person who timely requested a hearing of the Department's determination. The Department shall also provide written notice to MOH that the housing units to be constructed pursuant to such plan are subject to Section 413.1et seq.~~

~~(d) Prior to the issuance by DBI of the first construction document for a development project subject to this Section, the sponsor must:~~

~~(1) Provide written evidence to the Department that it has paid in full the sum or transferred title of the land required by Subsection (a) of this Section to one or more housing developers;~~

~~(2) Notify the Department that construction of the housing units has commenced, evidenced by:~~

~~(A) The City's issuance of site and building permits for the entire housing development project,~~

~~(B) Written authorization from the housing developer and the construction lender that construction may proceed,~~

~~(C) An executed construction contract between the housing developer and a general contractor, and~~

~~(D) The issuance of a performance bond enforceable by the construction lender for 100 percent of the replacement cost of the housing project; and~~

~~(3) Provide evidence satisfactory to the Department that the units required to be constructed will be affordable to qualifying households for 50 years through an enforcement mechanism approved by the Department pursuant to Subsections (b) through (d) of this Section.~~

~~(e) Where the sponsor elects to pay a sum or contribute land of value equivalent to the in-lieu fee to one or more housing developers, the sponsor's responsibility for completing construction of and maintaining the affordability of housing units constructed ceases from and after the date on which:~~

~~(1) The conditions of (1) through (3) of Subsection (d) of this Section have been met; and~~

~~(2) A mechanism has been approved by the Director to enforce the requirement that the housing units constructed will be affordable to qualifying households continuously for 50 years.~~

~~(f) If the project sponsor fails to comply with these requirements prior to issuance of the first certificate of occupancy by DBI, it shall be deemed to have elected to pay the in-lieu fee under Section 413.6 and the deferral surcharge in order to comply with Section 413.1et seq. DBI shall deny any and all certificates of occupancy for the development project until such payment has been made.~~

**SEC. 413.5~~6~~. COMPLIANCE ~~*WITH JOBS-HOUSING LINKAGE PROGRAM*~~ BY PAYMENT OF IN-LIEU FEE.**

(a) The amount of the fee which may be paid by the sponsor of a development project ~~*subject to this Section in lieu of developing and providing the housing required by Section 413.5*~~ shall be determined by the following formulas for each type of space proposed as part of the development project and subject to this Article *4*.

(1) For applicable projects (as defined in Section 413.3), any net addition shall pay per the Fee Schedule in Table 413.5~~6~~A, and

(2) For applicable projects (as defined in Section 413.3), any replacement or change of use shall pay per the Fee Schedule in Table 413.5~~6~~B.

* * * *

**TABLE 413.5~~6~~A**

**FEE SCHEDULE FOR NET ADDITIONS OF GROSS SQUARE FEET**

| ***Use*** | ***Fee per Gross Square Foot*** |
|---|---|
| Entertainment | $18.62 |
| Hotel | $14.95 |
| ~~*Integrated PDR*~~ | ~~*$15.69*~~ |
| Institutional | $0~~*.00*~~ |
| Office | $~~*19.96*~~~~69.60~~See subsection (c) below. |
| PDR | $0~~*.00*~~ |
| *Laboratory*~~*Research & Development*~~ | $~~*13.30*~~~~46.43~~See subsection (d) below. |
| Residential | $0~~*.00*~~ |
| Retail | $18.62 |
| Small Enterprise Workspace | $15.69 |

**TABLE 413.5~~6~~B**

**FEE SCHEDULE FOR REPLACEMENT OF USE OR CHANGE OF USE**

| *Previous Use* | *New Use* | *Fee per Gross Square Foot* |
|---|---|---|
| Entertainment, Hotel, ~~Integrated PDR,~~ Office, Laboratory~~Research & Development~~, Retail, or Small Enterprise Workspace | Entertainment, Hotel, ~~Integrated PDR,~~ Office, Retail, or Small Enterprise Workspace | $0~~.00~~ |
| PDR which received its First Certificate of Occupancy on or before April 1, 2010 | Entertainment, Hotel, ~~Integrated PDR,~~ Office, Laboratory~~Research & Development~~, Retail, or Small Enterprise Workspace | Use Fee from Table 413.5~~6~~A minus $14.09 |
| Institutional which received its First Certificate of Occupancy on or before April 1, 2010 | Entertainment, Hotel, ~~Integrated PDR,~~ Office, Laboratory~~Research & Development~~, Retail, or Small Enterprise Workspace | $0~~.00~~ |
| Institutional or PDR which received its First Certificate of Occupancy on or before April 1, 2010 | Institutional, PDR, Laboratory~~Research & Development~~, Residential | $0~~.00~~ |

| | | |
|---|---|---|
| Institutional or PDR which received its First Certificate of Occupancy after April 1, 2010 | Any | Use Fee from Table 413.5~~6~~ |
| Residential | Entertainment, Hotel, ~~*Integrated PDR,*~~ Office, PDR, *Laboratory*~~*Research & Development*~~, Retail, or Small Enterprise Workspace | Use Fee from Table 413.5~~6~~ |

~~*No later than January 1 of each year, MOHCD shall adjust the in-lieu fee payment option. No later than November 1 of each year, MOHCD shall provide the Planning Department, DBI, and the Controller with information on the adjustment to the in-lieu fee payment option so that it can be included in the Planning Department's and DBI's website notice of the fee adjustments and the Controller's Citywide Development Fee and Development Impact Requirements Report described in Section 409(a). MOHCD is authorized to develop an appropriate methodology for indexing the fee, based on adjustments in the costs of constructing housing and in the price of housing in San Francisco consistent with the indexing for the Residential Inclusionary Affordable Housing Program in lieu fee set out in Section 415.6. The method of indexing shall be published in the Procedures Manual for the Residential Inclusionary Affordable Housing Program. In making a determination as to the amount of the fee to be paid, the Department shall credit to the sponsor any excess Interim Guideline credits or excess credits which the sponsor elects to apply against its housing requirement.*~~

(*b*~~*e*~~) Any in-lieu fee required under this Section *413.*5~~6~~ is due and payable to the Development Fee Collection Unit at DBI at the time of and in no event later than issuance of the first construction document, with an option for the project sponsor to defer payment to prior to issuance of the first certificate of occupancy upon agreeing to pay a deferral surcharge that would be deposited into the Citywide Affordable Housing Fund in accordance with Section 107A.13.3 of the San Francisco Building Code.

*(c)* **Office Fees.** *Notwithstanding any other provision of this Code*, fees for the net addition of Office Use shall be paid as follows:

(1) F~~f~~*or any project that (1) received an approval from the Planning Commission or Planning Department on or before* ~~December 31~~September 10, *2019, stating that the project shall be subject to any new, changed, or increased Jobs Housing Linkage Fee adopted prior to that project's procurement of a Certificate of Occupancy or Final Completion, and (2) has not procured a Certificate of Occupancy or Final Completion as of the effective date of the ordinance in Board File No. 190548, amending this Section 413.*5~~6~~*, such project shall pay* $57.14 per gross square foot, and pay *the difference between the amount of the fees assessed at the time of site permit issuance and any additional amounts due under the new, changed, or increased fee before the City may issue a Certificate of Occupancy or Final Completion.*

(2) For any project that has submitted a complete environmental evaluation application on or before September 10, 2019, and has not received its building or site permit as of the effective date of this ordinance in Board File No. ________, such project shall pay $57.14 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(3) For any project that has submitted a complete environmental evaluation application between the dates of September 11, 2019, and January 1, 2022, and has not received its building or site permit as of the effective date of this ordinance

in Board File No. 190548, such project shall pay $63.37 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(4) For any project that has submitted a complete environmental evaluation application after January 1, 2022, shall pay $69.60 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(d) **Laboratory Fees**. Notwithstanding any other provision of this Code, fees for the net addition of Laboratory Use shall be paid as follows:

(1) For any project that has submitted a complete environmental evaluation application on or before September 10, 2019, and has not received its building or site permit as of the effective date of this ordinance in Board File No. ________, such project shall pay $38.05 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(3) For any project that has submitted a complete environmental evaluation application between the dates of September 11, 2019, and January 1, 2022, and has not received its building or site permit as of the effective date of this ordinance in Board File No. 190548, such project shall pay $42.20 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

(4) For any project that has submitted a complete environmental evaluation application after January 1, 2022, shall pay $46.43 per gross square foot. Any fees shall be assessed and paid consistent with this Article 4.

**SEC. 413.6~~7~~. COMPLIANCE BY LAND DEDICATION ~~*WITHIN THE CENTRAL SOMA SPECIAL USE DISTRICT*~~.**

(a) **Controls.** ~~*Within the Central SoMa Special Use District,*~~ *P*~~*p*~~rojects may satisfy all or a portion of the requirements of Section 413.*1 et seq.* ~~*5, 413.6 and 413.8*~~ via dedication of land *to the City for the purpose of constructing units affordable to qualifying* *households*. Projects may receive a credit against such requirements up to the value of the land donated, calculated pursuant to subsection (b) below.

(b) **Requirements.**

(1) The value of the dedicated land shall be determined by the Director of Property pursuant to Chapter 23 of the Administrative Code, but shall not exceed the actual cost of acquisition by the project sponsor of the dedicated land in an arm's length transaction. Prior to issuance by DBI of the first site or building permit for a development project subject to Section 413.1 *et seq.* the sponsor shall submit to the Department, with a copy to MOHCD and the Director of Property, documentation sufficient to substantiate the actual cost of acquisition by the sponsor in an arm's length transaction of any land to be dedicated by the sponsor to the City~~ and County of San Francisco~~, and any additional information that would impact the value of the land.

(2) Projects are subject to the requirements of Section 419.5(a)(2)(A) and (C)-~~through~~ (J).

**SEC. 413.*7*~~8~~. COMPLIANCE BY COMBINATION OF ~~*PAYMENT TO HOUSING DEVELOPER AND*~~ PAYMENT OF IN-LIEU FEE *AND LAND DEDICATION*.**

With the written approval of the Director of MOH*CD*, the sponsor of a development project subject to Section 413.1 *et seq.* may elect to satisfy its housing requirement by a combination of ~~*paying money or*~~ contributing land to *the City under Section 413.6*~~*7 one or more housing developers under Section 413.5*~~ and paying a partial amount of the in-lieu fee to the Development Fee Collection Unit at DBI under Section 413.*5*~~6~~. In the case of such election, the sponsor must pay a sum such that each gross square foot of net addition of each type of space subject to Section 413.1 *et seq.* is accounted for in either the ~~*payment of a sum or*~~ contribution of land to *the City under Section 413.6*~~*7 one or more housing developers*~~ or the payment of a fee to the Development

Fee Collection Unit. ~~The housing units constructed by a housing developer must conform to all requirements of Section 413.1 et seq., including, but not limited to, the proportion that must be affordable to qualifying households as set forth in Section 413.5.~~ All of the requirements of Section~~s 413.5 and~~ 413.*1 et seq.*~~6~~ shall apply, including the requirements with respect to the timing of issuance of site and building permits, first construction documents, and certificates of occupancy for the development project and payment of the in-lieu fee.

**SEC. 413.8~~9~~. LIEN PROCEEDINGS.**

A project sponsor's failure to comply with the requirements of Sections ~~413.5,~~ 413.5~~6~~ and 413.6~~7~~ shall be cause for the Development Fee Collection Unit at DBI to institute lien proceedings to make the in-lieu fee, as adjusted under Section 413.5~~6~~, plus interest and any deferral surcharge, a lien against all parcels used for the development project, in accordance with Section 408 of this Article *4* and Section 107A.13.15 of the San Francisco Building Code.

**SEC. 413.9~~10~~. CITYWIDE AFFORDABLE HOUSING FUND.**

*(a) Use of Fees.* All monies contributed pursuant to *the Jobs Housing Linkage Fee Program in Section 413.1 et seq.* ~~Sections 413.6 or 413.8 or assessed pursuant to Section 413.9~~ shall be deposited in the Citywide Affordable Housing Fund ("Fund"), established in Administrative Code Section 10.100-49. The receipts in the Fund collected under Section 413.*1* *et seq*. shall be used solely to increase the supply of housing affordable to qualifying households subject to the conditions of this Section *413.*9~~10~~. The fees collected under this Section may not be used, by way of loan or otherwise, to pay any administrative, general overhead, or similar expense of any entity. ~~The Mayor's Office of Housing and Community Development ("~~MOHCD~~")~~ shall develop procedures such that, for all projects funded by the Citywide Affordable Housing Fund,

MOHCD requires the project sponsor or its successor in interest to give preference in occupying units as provided for in Administrative Code Chapter 47.

*(1) **Preservation and Acquisition Funds.***

*(A) **Designation of Funds**. MOHCD shall designate and separately account for 10% of all fees that it receives under Section 413.1 et seq. that are deposited into the Fund to support the acquisition and rehabilitation of rent restricted affordable rental housing.*

*(B) **Use of Preservation and Acquisition Funds.** The funds shall be used exclusively to acquire and preserve existing housing with the goal of making such housing permanently affordable, including but not limited to acquisition of housing through the City's Small Sites Program. Units supported by monies from the Fund shall be designated as housing affordable to qualified households for the life of the project. Properties supported by the Preservation and Acquisition Funds must be:*

*(i) rental properties that will be maintained as rental properties;*

*(ii) vacant properties that were formerly rental properties as long as those properties have been vacant for a minimum of two years prior to the effective date of the ordinance in Board File No. _____, amending this Section 413.9~~10~~;*

*(iii) properties that have been the subject of foreclosure; or*

*(iv) a Limited Equity Housing Cooperative as defined in Subdivision Code Sections 1399.1 et seq. or a property owned or leased by a non-profit entity modeled as a Community Land Trust.*

*(C) **Annual Report.** At the end of each fiscal year, MOHCD shall issue a report to the Board of Supervisors regarding the total amount of Preservation and Acquisition Funds received, and how those funds were used.*

*(D) **Intent.** In establishing guidelines for Preservation and Acquisition Funds, the Board of Supervisors does not intend to preclude MOHCD from expending other eligible sources of funding on Preservation and Acquisition as described in this Section 413.9*~~10~~

*(2) **Permanent Supportive Housing.** MOHCD shall designate and separately account for 30% of all fees that it receives under Section 413.1 et seq. that are deposited into the Fund to support the development of permanent supportive housing that meets the requirements of Section 413.1 et seq.*

*(b) **Accounting of Funds in Central SoMa Special Use District.*** Pursuant to Section 249.78(e)(1), all monies contributed pursuant to the Jobs-Housing Linkage Program and collected within the Central SoMa Special Use District shall be paid into the Citywide Affordable Housing Fund, but the funds shall be separately accounted for. *Consistent with the allocations in subsection (a), s*~~S~~uch funds shall be expended within the area bounded by Market Street, the Embarcadero, King Street, Division Street, and South Van Ness Avenue.

**SEC. 415.5. AFFORDABLE HOUSING FEE.**

* * * *

(f) **Use of Fees.** All monies contributed pursuant to the Inclusionary Affordable Housing Program shall be deposited in the Citywide Affordable Housing Fund ("~~the~~ Fund"), established in Administrative Code Section 10.100-49, except as specified below. ~~The Mayor's Office of Housing and Community Development ("~~MOHCD~~")~~ shall use the funds collected under this Section 415.5 in the following manner:

* * * *

(2) **"Small Sites Funds."**

(A) **Designation of Funds.** MOHCD shall designate and separately account for 10% of all fees that it receives under Section 415.1 *et seq*. that are deposited into the ~~*Citywide Affordable Housing*~~ Fund~~*, established in Administrative Code Section 10.100-49*~~, excluding fees that are geographically targeted such as those referred to in Sections 249.78(e)(1), 415.5(b)(1), and 827(b)(1), to support acquisition and rehabilitation of Small Sites ("Small Sites Funds"). ~~*MOHCD shall continue to divert 10% of all fees for this purpose until the Small Sites Funds reach a total of $15 million, at which point MOHCD will stop designating funds for this purpose. At such time as designated Small Sites Funds are expended and dip below $15 million, MOHCD shall start designating funds again for this purpose, such that at no time the Small Sites Funds shall exceed $15 million.*~~ When the total amount of fees paid to the City under Section 415.1 *et seq.* *is* less than $10 million over the preceding 12-month period, MOHCD is authorized to temporarily divert funds from the Small Sites Fund*s* for other purposes. MOHCD shall keep track of the diverted funds, however, such that when the amount of fees paid to the City under Section 415.1 *et seq.* meets or exceeds $10 million over the preceding 12-month period, MOHCD shall commit all of the previously diverted funds and 10% of any new funds~~*, subject to the cap above,*~~ to the Small Sites Fund*s*.

* * * *

(E) **Intent.** In establishing guidelines for Small Sites Funds, the Board of Supervisors does not intend to preclude MOHCD from expending other eligible sources of funding on Small Sites as described in this Section 415.5~~*, or from allocating or expending more than $15 million of other eligible funds on Small Sites*~~.

* * * *

SEC. 424.4. VAN NESS AND MARKET DOWNTOWN RESIDENTIAL SPECIAL USE DISTRICT AFFORDABLE HOUSING FUND.

That portion of gross floor area subject to the $30.00 per gross square foot fee referenced in Section 424.3(b)(i) above shall be deposited into the special fund maintained by the Controller called the Citywide Affordable Housing Fund established by Section 413.9~~10~~. Except as specifically provided in this Section, collection, management, enforcement, and expenditure of funds shall conform to the requirements related to in-lieu fees in Planning Code Section 415.1 et seq., specifically including, but not limited to, the provisions of Section 415.7.

Section 3. 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 4. 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:
DENNIS J. HERRERA, City Attorney

By: ______________________
AUSTIN M. YANG
Deputy City Attorney

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190548

| | |
|---|---|
| **From:** | Lutenski, Leigh (ECN) |
| **Sent:** | Friday, June 07, 2019 4:19 PM |
| **To:** | Major, Erica (BOS); Somera, Alisa (BOS); Haney, Matt (BOS); RivamonteMesa, Abigail (BOS); Mcdonald, Courtney (BOS) |
| **Cc:** | Rich, Ken (ECN); Switzky, Joshua (CPC); Sanchez, Diego (CPC); Adams, Daniel (MYR); Conrad, Theodore (ECN); YANG, AUSTIN (CAT); STACY, KATE (CAT); Taupier, Anne (ECN); Bintliff, Jacob (CPC); Power, Andres (MYR); Cretan, Jeff (MYR) |
| **Subject:** | Jobs Housing Linkage Program - new documents for Board File #190548 and #100917 |
| **Attachments:** | San Francisco Jobs Housing Nexus Report May 2019 FINAL.pdf; Final Feasibility Study JHL 6.3.19.pdf; JHLF Nexus Feasibility Cover Memorandum_6-7-19 Final.pdf |

Hello Erica,

We are providing an updated Jobs Housing Nexus Analysis (attached to this email) in accordance with the California Mitigation Fee Act, Government Code Sections 66000 et seq. The analysis is an update to the last Jobs Housing Nexus Analysis on file that was completed in 1997.

I have also attached two supporting documents: an accompanying 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, and a cover memorandum that describes both the updated nexus analysis and the feasibility study.

Please include this analysis and the supporting documents in Board file #190548 for the pending ordinance amending the Planning Code to update the Jobs Housing Linkage Fee, as introduced by Supervisor Haney on May 14th. I also request that you send this information to Supervisor Haney and the co-sponsors of this legislation.

Finally, please also add this analysis and the supporting documents to the master Impact Fee Board file #100917.

Thank you, Leigh

-----------------

Leigh Lutenski
Project Manager, Joint Development
Office of Economic and Workforce Development
San Francisco City Hall, Room 448
Direct: 415-554-6679
Email: leigh.lutenski@sfgov.org

KEYSER MARSTON ASSOCIATES

JOBS HOUSING NEXUS ANALYSIS
SAN FRANCISCO, CALIFORNIA

*Prepared for*
City and County of San Francisco

*Prepared by:*
Keyser Marston Associates, Inc.

May 2019

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# I. EXECUTIVE SUMMARY

This Jobs Housing Nexus Analysis has been prepared for the City and County of San Francisco ("City") in support of the City's Jobs Housing Linkage Program ("JHLF Program") established in Section 413 of the San Francisco Planning Code. The JHLF Program establishes affordable housing fees applicable to non-residential development (the "Jobs Housing Linkage Fee" or "JHLF Fee"). The purpose of this report is to determine nexus support for fees under the JHLF Program consistent with the requirements of the Mitigation Fee Act (Government Code Section 66000 et. seq.). Findings represent the results of an impact analysis only and are <u>not</u> recommended requirements.

The nexus analysis establishes the relationships among construction of new non-residential buildings, added employment, and increased affordable housing demand. The analysis addresses construction of eight types of workplace buildings in San Francisco covering uses currently subject to the City's Jobs Housing Linkage Program plus medical and institutional uses which are included for consistency with the City's prior nexus study and to provide flexibility in adjusting program requirements in the future.

The eight building types addressed are:

- Office
- Research and Development (R&D)
- Retail
- Entertainment
- Hotel
- Production Distribution and Repair (PDR)
- Medical
- Institutional

The analysis establishes the additional demand for affordable units for each 1,000 square feet of net new non-residential gross floor area. This represents the maximum level of affordable unit demand to be mitigated by the City's JHLF Program consistent with the requirements of the Mitigation Fee Act, referred to for purposes of this Report as the "Affordable Unit Demand Factor." This Affordable Unit Demand Factor is a multiplier that the City can use in combination with current information regarding the subsidy required to produce affordable units to determine the maximum Jobs Housing Linkage Fee level consistent with the requirements of the Mitigation Fee Act.

## Analysis Methodology

The nexus analysis links new non-residential buildings with new workers; these workers demand additional housing, a portion of which needs to be affordable to the workers in lower income households. The analysis begins by assuming a 100,000 square foot building for each of the eight building types and then makes the following calculations:

- Number of employees is estimated based on average employment density data.
- New jobs are adjusted to new households, using San Francisco demographics on the number of workers per household. We know from the Census that many workers are members of households where more than one person is employed; we use factors derived from the Census to translate the number of workers into the number of households.
- Household incomes of workers by building type is estimated based on data specific to San Francisco's workforce derived from the United States Census American Community Survey (ACS) Public Use Microdata Sample for 2011 through 2016.
- The household income categories addressed in the analysis are Extremely Low Income, Very Low Income, Low Income and Moderate Income. The number of households within each income category generated by the new development is calculated by comparing data on household income to the income limits applicable to each income category. The number of households per 100,000 square feet of non-residential gross floor area (GFA) is then divided by 100 to arrive at coefficients of housing units needed for every 1,000 square feet of GFA, which are the Affordable Unit Demand Factor conclusions of the analysis.

The maximum Jobs Housing Linkage Fee per square foot of gross floor area (GFA) supported by this nexus analysis may be determined by multiplying each Affordable Unit Demand Factor by the required net subsidy to deliver each unit of affordable housing in San Francisco ("affordability gap") and then dividing by 1,000 square feet. Affordability gaps are published by the Mayor's Office of Housing and Community Development and updated regularly for purposes of San Francisco's affordable housing programs. Because affordability gaps for San Francisco are published regularly and vary over time with changes in development costs and median income levels, the final step in the fee calculation, multiplication by an affordability gap to determine mitigation cost, was not included in this report.

### Nexus Findings: Affordable Unit Demand Factors

The Affordable Unit Demand Factors for the eight building types are as follows:

| Table I-1: Affordable Unit Demand Factors<br>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 to be mitigated by JHLF Fees applicable to the eight building types. Affordable Unit Demand Factors by income category are provided in Table III-6 on page 14. They are not recommended levels for requirements; they represent only the maximums established by the impact analysis.

The results of the analysis are heavily driven by the density of employees within buildings in combination with the household incomes of workers. Retail has both high employment density and a high proportion of lower income workers. These factors combine to drive the greater Affordable Unit Demand Factor conclusions for retail.

Appendix C addresses the potential for overlap between affordable housing impacts documented in this Jobs Housing Nexus Analysis and the City's separate Residential Affordable Housing Nexus Analysis. The analysis demonstrates that adopted requirements are within the maximums supported by the nexus analyses even in the unlikely event significant overlap were to occur.

## II. INTRODUCTION

The following report is a Jobs Housing Nexus Analysis, an analysis of the linkages between non-residential development and the need for additional affordable housing in San Francisco. This Jobs Housing Nexus Analysis has been prepared by Keyser Marston Associates, Inc. (KMA) in support of affordable housing fees under the City's Jobs Housing Linkage Program.

### Purpose and Use of This Study

The purpose of a Jobs-Housing Nexus Analysis is to document and quantify the impact of the development of new non-residential buildings and the employees that work in them, on the demand for affordable housing. This nexus study has been prepared for the limited purpose of determining nexus support for the San Francisco JHLF Program consistent with the requirements of Government Code Section 66000 (Mitigation Fee Act). The analysis establishes the basis for calculating Jobs Housing Linkage Fees that could be imposed on a non-residential development project in a manner consistent with the requirements of the Mitigation Fee Act, referred to for purposes of this Report as the "Affordable Unit Demand Factor." Because jobs in all buildings cover a range of compensation levels, there are housing needs at all affordability levels. This analysis quantifies the need for affordable housing created by eight categories of workplace buildings. The affordable housing need is then translated into Affordable Housing Demand Factors representing the number of affordable units needed per 1,000 square feet of non-residential gross floor area (GFA). The Affordable Unit Demand Factor is a multiplier that the City can use to quantify and impose JHLF Fees to address the additional demand for affordable housing units resulting from non-residential development.

This study updates a prior nexus study prepared by KMA in 1997. In the 21 years since the prior study was prepared, there have been changes in the business activity taking place in the City, in the occupation and compensation structure of the City's workforce and in the cost of delivering affordable units to workers who cannot afford housing at market rates, all of which make an update to the City's nexus study advisable at this time.

This analysis has not been prepared as a document to guide policy design in the broader context. We caution against the use of this study, or any impact study for that matter, for purposes beyond the intended use. All nexus studies are limited and imperfect but can be helpful for addressing narrow concerns. The findings presented in this report represent the results of an impact analysis only and <u>are not</u> policy recommendations for changes to the JHLF Program.

### San Francisco's Jobs Housing Linkage Program

San Francisco's affordable housing fee program applicable to non-residential development has been in place for over 30 years. The predecessor to the current JHLF Program, the Office Affordable Housing Production Program (OAHHP), was enacted in 1985. The OAHHP program linked development of office buildings to the demand for affordable housing, by requiring office developers to either build affordable housing or pay an in-lieu fee. The program has been expanded and amended several times and now covers the following building types:

- Office,
- Research and Development (R&D),
- Retail,
- Entertainment,
- Hotel,
- Integrated Production Distribution and Repair (PDR), and
- Small Enterprise Workspace[1].

San Francisco's JHLF Program is established in Section 413 of the Planning Code. Fee requirements apply to projects adding more than 25,000 square feet of any combination of the above uses. Projects have the option to provide affordable units as an alternative to payment of fees or to comply through a combination of fee payment and provision of affordable units.

### Legal Context

San Francisco's JHLF Program is among the first jobs housing linkage programs adopted in the U.S. Since the program was adopted in the mid-1980s, there have been several court cases and California statutes that affect what local jurisdictions must demonstrate when imposing impact fees on development projects. The most important U.S. Supreme Court cases are Nollan v. California Coastal Commission and Dolan v. City of Tigard (Oregon). The rulings on these cases, and others, help clarify what governments must find in the way of the nature of the relationship between the problem to be mitigated and the action contributing to the problem. Here, the problem is the lack of affordable housing and the action contributing to the problem is building workspaces that mean more jobs and worker households needing more affordable housing.

Following the Nollan decision in 1987, the California legislature enacted AB 1600 which requires local agencies proposing an impact fee on a development project to identify the purpose of the fee, the use of the fee, and to determine that there is a reasonable relationship between the fee's use and the development project on which the fee is imposed. The local agency must also demonstrate that there is a reasonable relationship between the fee amount and the cost of

[1] Defined in Planning Code Section 102 as a use comprised of discrete workspace units of limited size that are independently accessed from building common areas.

mitigating the problem that the fee addresses. Studies by local governments designed to fulfill the requirements of AB 1600 are often referred to as AB 1600 or "nexus" studies.

One court case that involved housing linkage fees was Commercial Builders of Northern California v. City of Sacramento decided in 1991. The commercial builders of Sacramento sued the City following the City's adoption of a housing linkage fee. Both the U.S. District Court and the Ninth Circuit Court of Appeals upheld the City of Sacramento and rejected the builders' petition. The U.S. Supreme Court denied a petition to hear the case, letting stand the lower court's opinion.

Since the Sacramento case in 1991, there have been several additional court rulings reaffirming and clarifying the ability of California cities to adopt impact fees. A notable case was the San Remo Hotel v. the City and County of San Francisco, which upheld the impact fee levied by the City and County on the conversion of residence hotels to tourist hotels and other uses. The court found that a suitable nexus, or deleterious impact, had been demonstrated. In 2009, in the Building Industry Association of Central California v. the City of Patterson, the Court invalidated the City's fee since the impact of the proposed project as related to the fee had not been demonstrated. A 2010 ruling upheld most of the impact fees levied by the City of Lemoore in Southern California. Of note relevant to housing impact fees was the judges' opinion that a "fee" may be "established for a broad class of projects by legislation of general applicability....the fact that specific construction plans are not in place does not render the fee unreasonable." In other words, cities do not have to identify specific affordable housing projects to be constructed at the time of adoption.

In summary, the case law at this time appears to be fully supportive of fees under the JHLF Program that have been in place in San Francisco since the 1980s and are the subject of this updated nexus analysis.

**Analysis Scope**

This analysis examines eight types of workplace buildings encompassing uses subject to the City's JHLF Program. The Institutional and Medical categories are not generally subject to fees at this time but are included for consistency with the 1997 study and to provide flexibility in amending the program in the future.

- **Office** encompasses the full range of office users in San Francisco from high tech firms that have represented an increasing share of leasing activity in recent years to the financial and professional services sector and medical offices.
- **Research and Development (R&D)** encompasses the Laboratory and Life Science uses defined in Planning Code Section 102.
- **Retail** includes all types of retail, restaurants and personal services.
- **Entertainment** includes performance venues, movie theaters and other entertainment.

- **Hotel** covers the range from full service hotels to limited service accommodations.
- **Production Distribution and Repair (PDR)** is a use category defined in Planning Code Section 102 encompassing industrial, wholesale, auto repair and service, storage, delivery services, and a range of other uses of an industrial or semi-industrial character.
- **Medical** encompasses hospitals, outpatient and nursing care facilities. Medical office is not included as it is captured within the office category.
- **Institutional** uses encompass educational, cultural, religious and other institutional buildings except medical, which are captured as a separate category.

Small enterprise workspace is not addressed as a separate use category in the nexus analysis because these buildings are defined more by the size of businesses and interior configuration and may include one or more of the above uses.

The household income categories addressed in the analysis are:

- Extremely Low Income: households earning up to 30% of median income;
- Very Low Income: households earning over 30% up to 50% of median;
- Low Income: households earning over 50% up to 80% of median; and,
- Moderate Income: households earning over 80% up to 120% of median.

### Report Organization

The report is organized into five sections and three appendices, as follows:

- Section I is the Executive Summary;
- Section II provides an introduction;
- Section III presents an analysis of the jobs and housing relationships associated with each workplace building type and concludes with the number of households at each income level associated with each building type;
- Section IV provides draft findings consistent with the requirements of the Mitigation Fee Act;
- Appendix A provides a discussion of various specific factors and assumptions in relation to the nexus concept;
- Appendix B contains support information regarding the industry categories identified as applicable to each building type; and

- Appendix C – provides an analysis to address the potential for overlap between jobs counted in this Jobs Housing Nexus Analysis and the separate Residential Affordable Housing Nexus Analysis prepared for the City in 2016.

**Data Sources and Qualifications**

The analyses in this report have been prepared using the best and most recent data available. Local and current data were used whenever possible. The American Community Survey of the U.S. Census is used extensively. Other sources and analyses used are noted in the text and footnotes. While we believe all sources utilized are sufficiently accurate for the purposes of the analyses, we cannot guarantee their accuracy. KMA assumes no liability for information from these or other sources.

## III. JOBS HOUSING NEXUS ANALYSIS

This section presents a summary of the analysis linking the development of the eight types of workplace buildings to the estimated number of lower income housing units required in each of four income categories.

### Analysis Approach and Framework

The analysis establishes the jobs housing nexus for individual land use categories, quantifying the connection between employment growth in San Francisco and affordable housing demand.

The analysis examines the employment associated with the development of workplace building prototypes. Then, through a series of steps, the number of employees is converted to households and housing units by income level. The findings are expressed in terms of numbers of households per 100,000 square feet, for ease of presentation. In the final step, we convert the numbers of households for an entire building to the number of households per 1,000 square feet of building area, which becomes the basis for the Affordable Unit Demand Factors that are the conclusions of the analysis.

### Household Income Limits

The analysis estimates demand for affordable housing in four household income categories: Extremely Low, Very Low, Low and Moderate Income. The analysis uses income limits applicable to San Francisco's affordable housing programs published by the San Francisco Mayor's Office of Housing and Community Development (MOHCD) for 2018 as shown in Table III-1.

**Table III-1: 2018 Income Limits for San Francisco**

| | Household Size (Persons) | | | | | |
|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 + |
| Extr. Low (Under 30% AMI) | $24,850 | $28,400 | $31,950 | $35,500 | $38,350 | $41,200 |
| Very Low (30%-50% AMI) | $41,450 | $47,350 | $53,300 | $59,200 | $63,950 | $68,700 |
| Low (50%-80% AMI) | $66,300 | $75,750 | $85,250 | $94,700 | $102,300 | $109,900 |
| Moderate (80%-120% AMI) | $99,500 | $113,650 | $127,850 | $142,100 | $153,400 | $164,800 |
| Median (100% of Median) | $82,900 | $94,700 | $106,550 | $118,400 | $127,850 | $137,350 |

Source: San Francisco Mayor's Office of Housing and Community Development.

## Analysis Steps

Following is a description of the four major steps in the analysis.

### *Step 1 – Estimate of Total New Employees*

The first step identifies the total number of direct employees who will work in the building type being analyzed. Average employment density factors are used to make the calculation. Employment density estimates are drawn from a variety of sources including a separate KMA study on office employment density specific to San Francisco, estimates used in the San Francisco Planning Department's Land Use Allocation Model, Environmental Impact Reports, Institute of Transportation Engineers (ITE) and other sources. Estimates are tailored to the character of development and the types of tenancies expected in San Francisco.

- *Office* – 238 square feet per employee based on a separate office employment density study completed by KMA in 2017. The estimate reflects the mix of tech, professional services, financial, and legal tenants in San Francisco.
- *Research and Development* – 400 square feet per employee. The estimate reflects laboratory, life sciences and other research facilities and utilizes the Association of Bay Area Government's estimate of employment density from the ITE Trip Generation Manual, 5th Edition.
- *Retail* – Estimated at 368 square feet per employee consistent with the San Francisco Planning Department's Land Use Allocation Model and other planning applications. Restaurant space typically has a higher employment density, while retail space ranges widely depending on the type of retail, with furniture stores, for example, representing the lower end. The density range within this category is wide, with some types of retail as much as five times as dense as other types.
- *Entertainment* – Estimated at 900 square feet per employee. This category address lower employment density entertainment uses such as movie theaters and live performance venues. The estimate is based on ITE Trip Generation Manual, 7th Edition data applicable to movie theaters.
- *Hotel* – 787 square feet per employee. The 787 square feet per employee average covers a range from higher service hotels, which are far more employment intensive, to minimal service extended stay hotels which have very low employment density. The employment density estimate is consistent with the San Francisco Planning Department's Land Use Allocation Model.
- *Production Distribution and Repair (PDR)* – 597 square feet per employee. This category encompasses a wide range of industrial, storage and service uses. The employment density figure is specific to the PDR category and is based on the estimate used in the San Francisco Planning Department's Land Use Allocation Model.

- *Medical* – 350 square feet per employee. This category reflects hospitals, outpatient and nursing care facilities. The employment density estimate comes from the City's land use allocation model. By way of comparison, the Environmental Impact Report (EIR) for the reconstruction of San Francisco General Hospital reflected a similar employment density while the EIR for the University of California San Francisco Medical Center in Mission Bay reflects a somewhat higher density of employment than estimated here.
- *Institutional* – 1,000 square feet per employee. The institutional use category encompasses educational, cultural, religious and other institutional uses other than those of a medical nature which are represented in the separate medical category. The employment density estimate is based on data from the Institute of Transportation Engineers on employment densities for a range of institutional uses. Cultural facilities such as museums may be less dense than the average while schools may have a higher density of employment. The estimate is less than that used in the City's Land Use Allocation Model to capture lower density of employment uses included in this category.

KMA conducted the analysis on 100,000 square foot buildings. This facilitates the presentation of the nexus findings, as it allows jobs and housing units to be presented in whole numbers that can be more readily understood. At the conclusion of the analysis, the findings are converted to the number of units per 1,000 square feet so that the findings can be applied to buildings of any size. Table III-2 shows the employment estimate.

**Table III-2: Number of Employees Per 100,000 Square Feet of Gross Floor Area (GFA)**

| | Employment Density (SF/Employee) | Number of Employees per 100,000 sq.ft. of GFA |
|---|---|---|
| Office | 238 | 420 |
| R&D | 400 | 250 |
| Retail | 368 | 272 |
| Entertainment | 900 | 111 |
| Hotel | 787 | 127 |
| PDR | 597 | 168 |
| Medical | 350 | 286 |
| Institutional | 1,000 | 100 |

### *Step 2 – Adjustment from Employees to Employee Households*

This step (Table III-3) converts the number of employees to the number of employee households, recognizing that that there is, on average, more than one worker per household, and thus the number of housing units needed for new workers is less than the number of new workers. The workers-per-worker-household ratio eliminates from the equation all non-working households, such as retired persons and students.

The number of workers per household in a given geographic area is a function of household size, labor force participation rate and employment availability, as well as other factors. According to the 2011-2015 ACS, the number of workers per worker household in San Francisco is 1.74, including full- and part-time workers. The total number of jobs created is divided by 1.74 to determine the number of new households. This is a conservative estimate because it excludes all non-worker households (such as students and the retired). If the average number of workers in all households was used, it would have produced a greater demand for housing units. Table III-3 presents the results of this calculation step.

**Table III-3: Adjustment from Employees to Employee Households**

| | Number of Workers per 100,000 sq.ft. of GFA | Number of Worker Households |
|---|---|---|
| | | *(=no. workers / 1.74)* |
| Office | 420 | 241.7 |
| R&D | 250 | 143.8 |
| Retail | 272 | 156.3 |
| Entertainment | 111 | 63.9 |
| Hotel | 127 | 73.1 |
| PDR | 168 | 96.4 |
| Medical | 286 | 164.3 |
| Institutional | 100 | 57.5 |

***Step 3 – Worker Household Incomes***

Household incomes for workers are estimated using data from the U.S. Census American Community Survey (ACS) for 2011 to 2016. The ACS data is accessed in raw form through the Public Use Microdata Sample (PUMS) program. Data on household income from individual Census survey responses is summarized for each of the eight building types. Household income data is for San Francisco's workforce, including in-commuters. Workers were grouped by building type based on their industry category. A list of industries corresponding to each of the eight building types is included in Appendix Table B - 1. Incomes are adjusted for changes in the consumer price index (CPI) since the applicable survey year consistent with the approach used by the U.S. Department of Housing and Urban Development in establishing income limits. Each individual household's income is then compared to income limits for San Francisco to determine the applicable income category (Extremely Low, Very Low, Low and Moderate).

The percentage of individual survey respondents within each income category is summarized by building type as shown in Table III-4. As indicated, more than 65% of retail worker household and over 70% of hotel worker households are below the 120% of median income level. R&D space has lowest percentage of workers under 120% of median at approximately 31%.

| Table III-4: Percentage of New Worker Households by Income Category | Office | R&D | Retail | Entertainment | Hotel | PDR | Medical | Institutional |
|---|---|---|---|---|---|---|---|---|
| Extremely Low | 3.0% | 3.5% | 10.9% | 8.1% | 6.7% | 7.4% | 3.1% | 7.4% |
| Very Low Income | 4.2% | 1.2% | 15.1% | 7.8% | 17.1% | 10.1% | 5.5% | 9.4% |
| Low Income | 10.0% | 6.4% | 20.1% | 16.2% | 24.5% | 18.4% | 13.6% | 18.6% |
| Moderate Income | 16.2% | 19.9% | 19.4% | 21.5% | 22.3% | 19.3% | 19.6% | 22.3% |
| **Subtotal 0-120% of median** | **33.5%** | **31.0%** | **65.4%** | **53.6%** | **70.7%** | **55.2%** | **41.8%** | **57.7%** |
| Above Moderate (over 120% of median) | **66.5%** | **69.0%** | **34.6%** | **46.4%** | **29.3%** | **44.8%** | **58.2%** | **42.3%** |
| **Total** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** | **100%** |

Lower income households have been found to over-report income in self-reported Census surveys,[2] which may artificially reduce the share that qualify within the four income tiers. Therefore, use of self-reported household income derived from American Community Survey data likely provides a conservative estimate that understates affordable housing demand.

The distribution of household incomes from Table III-4 is applied to the number of households from Table III-3 to calculate the number of affordable units needed by income category per 100,000 square feet of building area summarized in table III-5.

| Table III-5: New Worker Households by Income Level per 100,000 square feet | Office | R&D | Retail | Entertainment | Hotel | PDR | Medical | Institutional |
|---|---|---|---|---|---|---|---|---|
| Extremely Low | 7.3 | 5.1 | 17.0 | 5.2 | 4.9 | 7.1 | 5.1 | 4.3 |
| Very Low Income | 10.3 | 1.7 | 23.6 | 5.0 | 12.5 | 9.8 | 9.0 | 5.4 |
| Low Income | 24.3 | 9.2 | 31.3 | 10.4 | 17.9 | 17.7 | 22.3 | 10.7 |
| Moderate Income | 39.0 | 28.6 | 30.3 | 13.8 | 16.3 | 18.6 | 32.2 | 12.8 |
| **Subtotal 0%-120% of median** | **80.9** | **44.6** | **102.2** | **34.3** | **51.6** | **53.2** | **68.6** | **33.2** |
| Above Moderate (over 120% of median) | 160.8 | 99.2 | 54.1 | 29.6 | 21.4 | 43.2 | 95.7 | 24.3 |
| Total | **241.7** | **143.8** | **156.3** | **63.9** | **73.1** | **96.4** | **164.3** | **57.5** |

[2]Murray-Close, Marta and Heggeness, Misty L. 2018. Manning up and womaning down: How husbands and wives report their earnings when she earns more. The paper examines bias in reporting of income in Census surveys as a reflection of gender and gender roles based on a comparison to administrative records. Self-reported income was found to exceed that indicated in administrative records for households in the bottom 50th percentile of income (Figure 1, pp 13) in three of the four categories addressed.

*Step 4 – Affordable Unit Demand Factors*

Affordable unit demand factors representing the number of housing units per 1,000 square feet of building area are calculated by dividing the number of worker households within each income tier per 100,000 square feet of building area from step 3 by 100. The Affordable Unit Demand Factors for the eight building types are presented in Table III-6:

**Table III-6: Affordable Unit Demand Factors**
**[Affordable Units Needed per 1,000 SF of GFA]**

| Building Type | Affordable Unit Demand Per 1,000 Square Feet of GFA | | | | Total Affordable Unit Demand Per 1,000 Square Feet of GFA (0% to 120% AMI) |
|---|---|---|---|---|---|
| | Extremely Low | Very Low Income | Low Income | Moderate Income | |
| Office | 0.07312 | 0.10265 | 0.24268 | 0.39047 | 0.80892 |
| R&D | 0.05100 | 0.01682 | 0.09175 | 0.28642 | 0.44599 |
| Retail | 0.17037 | 0.23571 | 0.31348 | 0.30274 | 1.02229 |
| Entertainment | 0.05176 | 0.04968 | 0.10373 | 0.13759 | 0.34275 |
| Hotel | 0.04891 | 0.12531 | 0.17919 | 0.16302 | 0.51642 |
| PDR | 0.07085 | 0.09757 | 0.17683 | 0.18628 | 0.53153 |
| Medical | 0.05059 | 0.09047 | 0.22300 | 0.32240 | 0.68647 |
| Institutional | 0.04255 | 0.05391 | 0.10722 | 0.12808 | 0.33176 |

These figures express the maximum number of affordable units to be mitigated per 1,000 square feet of gross floor area for the eight building types. They are not recommended requirements; they represent only the maximums established by this analysis, below which JHLF Program requirements may be set.

The results of the analysis are heavily driven by the density of employees within buildings in combination with the occupational make-up of the workers. Retail has both high employment density and a high proportion of lower paying jobs. These factors combine to drive the greater Affordable Unit Demand Factor conclusions for retail.

This is the summary of the housing nexus analysis, or the linkage from buildings to employees to housing demand, by income level in relationship to non-residential building area.

**Maximum Supported JHLF Program Fees**

This report does not include a calculation of maximum supported fee level. Maximum supported fee levels per square foot of building area may be calculated by:

1) Multiplying affordable unit demand factors summarized in Table III-6 by an affordability gap representing the estimated average net cost to produce each unit of affordable housing; and
2) Dividing by 1,000 square feet of building area.

Affordability gaps are published by the Mayor's Office of Housing and Community Development and periodically updated as required under Planning Code Section 415.5. Affordability gaps are subject to change as a function of construction costs and other factors. The step of calculating maximum supported fee levels in dollar terms was not included in this report given there is a process in place to determine and regularly update the affordability gap.

Appendix C addresses the potential for overlap between affordable housing impacts documented in this Jobs Housing Nexus Analysis and the City's separate Residential Affordable Housing Nexus Analysis. The analysis demonstrates that adopted requirements are within the maximums supported by the nexus analyses even after consideration of potential overlap between the impacts addressed in the two studies.

## IV. MITIGATION FEE ACT FINDINGS

This section identifies the findings of the Nexus Analysis consistent with the requirements of the Mitigation Fee Act as set forth in Government Code § 66000 et seq:

(1) **Identify the purpose of the fee** (66001(a)(1)).

The purpose of the fee under the JHLF Program is to fund construction of affordable housing units to address the affordable housing needs of new workers added by construction of non-residential buildings in San Francisco.

(2) **Identify the use to which the fee is to be put** (66001(a)(2)).

JHLF Program fees are used to increase the supply of housing affordable to qualifying Extremely Low, Very Low, Low and Moderate-Income households earning from 0% through 120% of median income.

(3) **Determine how there is a reasonable relationship between the fee's use and the type of development project on which the fee is imposed** (66001(a)(3)).

The foregoing Jobs Housing Nexus Analysis has demonstrated that there is a reasonable relationship between the use of the fee, which is to increase the supply of affordable housing in San Francisco, and the development of new non-residential buildings which increases the need for affordable housing. Development of new non-residential buildings increases the number of jobs in San Francisco. A share of the new workers in these new jobs will have household incomes that qualify as Extremely Low, Very Low, Low and Moderate Income and result in an increased need for affordable housing.

(4) **Determine how there is a reasonable relationship between the need for the public facility and the type of development project on which the fee is imposed** (66001(a)(4)).

The analysis has demonstrated that there is a reasonable relationship between the development of non-residential workspace buildings in San Francisco and the need for additional affordable units. Development of new workspace buildings accommodates additional jobs in San Francisco. Eight different non-residential development types were analyzed (Office, R&D, Retail, Entertainment, Hotel, Production Distribution and Repair, Medical and Institutional). The number of jobs added in various types of new non-residential buildings is documented on page 10. Based on household income levels for the new workers in these new jobs, a significant share of the need is for housing affordable to Extremely Low, Very Low, Low and Moderate Income levels. The nexus analysis concludes that for every 100,000 square feet of new office space, 80.9 incremental affordable units are needed. For R&D, 44.6 affordable units are needed per 100,000 square feet of space developed, 102.2 for Retail, 34.3 for Entertainment, 51.6 for Hotel, 53.2 for Production Distribution and Repair, 68.6 for Medical and 33.2 for Institutional.

(5) **Determine how there is a reasonable relationship between the amount of the fee and the cost of the public facility or portion of the public facility attributable to the development on which the fee is imposed.** (66001(b)).

There is a reasonable relationship between the amount of the fee and the cost of the needed affordable housing attributable to the new non-residential development. The nexus analysis has quantified the increased need for affordable units in relation to each type of new non-residential use being developed. The cost of providing each needed affordable unit is determined by the Mayor's Office of Housing and Community Development and regularly updated. Costs reflect the net subsidy required to produce the affordable units based on recent cost information for affordable housing units. Per unit costs are multiplied by the Affordable Housing Demand Factors established in this nexus study and divided by 1,000 square feet to determine maximum per square foot fees based on affordable housing need attributable to each type of development. JHLF Fees are charged per square foot of building area and updated annually. JHLF Fees for each building type are set at a level that does not exceed the per square foot cost of providing affordable housing attributable to each type of development.

(6) **A fee shall not include the costs attributable to existing deficiencies in public facilities** (66001(g)).

The nexus analysis quantifies only the net new affordable housing needs generated by new non-residential development in San Francisco. Existing deficiencies with respect to housing conditions in San Francisco are not considered nor in any way included in the analysis.

# APPENDIX A: DISCUSSION OF VARIOUS FACTORS IN RELATION TO NEXUS CONCEPT

This appendix provides a discussion of various specific factors and assumptions in relation to the nexus concept.

### 1. Addressing the Housing Needs of a New Population vs. the Existing Population

This nexus analysis assumes there is no excess supply of affordable housing available to absorb or offset new demand; therefore, new affordable units are needed to mitigate the new affordable housing demand generated by development of new workplace buildings.

This nexus study does not address the housing needs of the existing population. Rather, the study focuses exclusively on documenting and quantifying the housing needs created by development of new workplace buildings.

Local analyses of housing conditions have found that new housing affordable to lower income households is not being added to the supply in sufficient quantity to meet the needs of new employee households. If this were not the case and significant numbers of affordable units were being added to the supply, or if residential units were experiencing significant long-term vacancy levels, particularly in affordable units, then the need for new units would be questionable.

### 2. No Excess Supply of Affordable Housing

An assumption of this nexus analysis is that there is no excess supply of affordable housing available to absorb or offset new demand; therefore, new affordable units are needed to mitigate the new affordable housing demand generated by new non-residential development. Based on a review of San Francisco's Housing Element as well as recent Census information, conditions are consistent with this underlying assumption.

San Francisco is often ranked as one of the most expensive housing markets in the country. San Francisco's 2014 Housing Element indicates average rents for a two-bedroom apartment are more than twice the level that is affordable to a Low Income household and nearly four times the level affordable to Very Low Income households. The least expensive of 15 San Francisco neighborhoods surveyed as part of the Housing Element still has market rent levels that are more than twice the amount a Very Low income household can afford and well above a level affordable to Low Income households. Rents have increased significantly since the 2014 survey, further exacerbating the disparity between market rents and the rent level affordable to Extremely Low, Very Low, and Low-Income households. Ownership housing is similarly out of reach for the majority of households in San Francisco. According to the Housing Element, the median priced home is affordable to only 16% of San Francisco households. Census data for San Francisco (from the 2011 to 2015 American Community Survey) shows that 40% of all households in the City are paying thirty percent or more of their income on housing.

### 3. Nexus Relationships Hold on Macro Scale

The nexus analysis relates square feet of new non-residential development to added jobs in San Francisco on an individual building basis. While the analysis is conducted at the level of the individual building, the underlying relationships hold on a larger City-wide scale. KMA reviewed published data on office employment in San Francisco over the past 27 years in relationship to the absorption of new office space. As summarized in the table below, office employment has grown in proportion to the new office space that has been constructed and absorbed in San Francisco. Relationships between building area absorbed and jobs added has been relatively consistent over time with a modest trend toward increasing density of employment. As shown in the table below, over the past 27 years in San Francisco, an average of one new office job was added for every 235 square feet of added office space.

**Table A-1**
**Relationship Between Added Jobs and Added Square Feet of Office Space in San Francisco**

| | 1990 | 2017Q1 | Incremental Growth 1990 - 2017 |
|---|---|---|---|
| Office Square Feet in San Francisco (1) | 59,857,000 | 79,953,100 | 20,096,100 |
| Office Jobs in San Francisco | 240,552 | 326,041 | 85,489 |
| Ratio: Added Jobs to Square Feet of Office Space | **1 job per 249 square feet of office space** | **1 job per 245 square feet of office space** | **1 added job for every 235 square feet of added office space** |

(1) Occupied Gross Floor Area.
Source: Office Employment Density Estimate. Keyser Marston Associates, Inc.

The above table is extracted from an analysis included in the 2017 Office Employment Density Estimate for San Francisco prepared by Keyser Marston Associates, Inc. The employment data is derived from the Quarterly Census of Employment and Wages and the data on office space absorption is reported by the brokerage firm Colliers International.

### 4. Substitution Factor

Any given new building may be occupied partly, or even perhaps totally, by employees relocating from elsewhere in the region. Buildings are often leased entirely to firms relocating from other buildings in the same jurisdiction. However, when a firm relocates to a new building from elsewhere in the region, there is a space in an existing building that is vacated and occupied by another firm. That building in turn may be filled by some combination of newcomers to the area and existing workers. Somewhere in the chain there are jobs new to the region. The net effect is that new buildings accommodate new employees, although not necessarily inside the new buildings themselves.

### 5. Indirect Employment and Multiplier Effects

The multiplier effect refers to the concept that the income generated by a new job recycles through the economy and results in additional jobs. The total number of jobs generated is broken down into three categories – direct, indirect and induced. In the case of this Jobs Housing Nexus Analysis, the direct jobs are those located in the new workspace buildings that would be subject to the linkage fee. Multiplier effects encompass indirect and induced employment. Indirect jobs are generated by suppliers to the businesses located in the new workspace buildings. Induced jobs are generated by local spending on goods and services by employees.

Multiplier effects vary by industry. Industries that draw heavily on a network of local suppliers tend to generate larger multiplier effects. Industries that are labor intensive also tend to have larger multiplier effects as a result of the induced effects of employee spending.

Theoretically, a jobs-housing nexus analysis could consider multiplier effects although the potential for double-counting exists to the extent indirect and induced jobs are added in other new buildings in jurisdictions that have jobs housing linkage fees. KMA chose to omit the multiplier effects (the indirect and induced employment impacts) to avoid potential double-counting and make the analysis more conservative.

In addition, the nexus analysis addresses direct "inside" employment only. In the case of an office building, for example, direct employment covers the various managerial, professional and clerical people that work in the building; it does not include the security guards, the delivery services, the landscape maintenance workers, and many others that are associated with the normal functioning of an office building. In other words, any analysis that ties lower income housing to the number of workers inside buildings will continue to understate the demand. Thus, confining the analysis to the direct employees does not address all the lower income workers associated with each type of building and understates the impacts.

### 6. Economic Cycles

An impact analysis of this nature is intended to support a one-time impact requirement to address impacts generated over the life of a project (generally 40 years or more). Short-term conditions, such as a recession or a vigorous boom period, are not an appropriate basis for estimating impacts over the life of the building. These cycles can produce impacts that are higher or lower on a temporary basis.

Development of new workspace buildings tends to be minimal during a recession and generally remains minimal until conditions improve or there is confidence that improved conditions are imminent. When this occurs, the improved economic condition will absorb existing vacant space and underutilized capacity of existing workers, employed and unemployed. By the time new buildings become occupied, conditions will have likely improved.

To the limited extent that new workspace buildings are built during a recession, housing impacts from these new buildings may not be fully experienced immediately, but the impacts will be experienced at some point. New buildings delivered during a recession can sometimes sit vacant for a period after completion. Even if new buildings are immediately occupied, overall absorption of space can still be zero or negative if other buildings are vacated in the process. Jobs added may also be filled in part by unemployed or underemployed workers who are already housed locally. As the economy recovers, firms will begin to expand and hire again filling unoccupied space as unemployment is reduced. New space delivered during the recession still adds to the total supply of employment space in the region. Though the jobs are not realized immediately, as the economy recovers and vacant space is filled, this new employment space absorbs or accommodates job growth. Although there may be a delay in experiencing the impacts, the fundamental relationship between new buildings, added jobs, and housing needs remains over the long term.

In contrast, during a vigorous economic boom period, conditions exist in which elevated impacts are experienced on a temporary basis. As an example, compression of employment densities can occur as firms add employees while making do with existing space. Compressed employment densities mean more jobs added for a given amount of building area. Boom periods also tend to go hand-in-hand with rising development costs and increasing home prices. These factors can bring market rate housing out of reach of a larger percentage of the workforce and increase the cost of delivering affordable units.

While the economic cycles can produce impacts that are temporarily higher or lower than normal, an impact fee is designed to be collected once, during the development of the project. Over the lifetime of the project, the impacts of the development on the demand for affordable housing will be realized, despite short-term booms and recessions.

### 7. Governmental Offices

The analysis has been performed for uses currently subject or potentially subject to the fee in the future. Buildings constructed by the City, State, or Federal government are generally exempt. However, governmental agencies also lease space in buildings that are built by the private sector and subject to the fee. For purposes of the analysis, tenancies in new office buildings are assumed to be primarily private sector tenants. Governmental agencies are not assumed as part of the tenant mix due to the difficulty in estimating the share governmental tenants would represent within privately developed buildings. To test the impact of this assumption, a sensitivity was performed to identify how findings would differ if office space were to be occupied by governmental tenants. The results indicate that affordable housing demand associated with occupancy by a governmental tenant would be greater than for the representative mix of private tenant types reflected in the analysis. This demonstrates that the approach used in the analysis, which does not assume governmental tenants, is conservative because findings regarding affordable housing needs would be higher if a share of governmental tenants were included.

**Table A-2**
**Percent of New Worker Households by Income Category – Sensitivity with Governmental Tenants**

| | Office Space Occupied by Private Tenant | Office Space Occupied by Governmental Tenants |
|---|---|---|
| Extremely Low | 3.0% | 3.3% |
| Very Low Income | 4.2% | 5.3% |
| Low Income | 10.0% | 13.1% |
| Moderate Income | 16.2% | 21.2% |
| **Total 0% to 120% of median** | **33.5%** | **42.9%** |
| Above Moderate (over 120% of median) | **66.5%** | **57.1%** |
| Total | 100% | 100% |

# APPENDIX B: LIST OF INDUSTRY CATEGORIES BY BUILDING TYPE

APPENDIX TABLE B-1
INDUSTRY CATEGORIES BY BUILDING TYPE
JOBS HOUSING NEXUS ANALYSIS
SAN FRANCISCO, CA

The following table summarizes the industry categories selected as applicable to each building type. Household income data by industry for San Francisco's workforce was translated to building type using the identified categories.

**Office**
Includes manufacturing businesses anticipated to locate offices rather than production facilities in San Francisco.

Computer and peripheral equipment manufacturing
Communications, and audio and video equipment manufacturing
Electronic component and product manufacturing, n.e.c.
Newspaper publishers
Periodical, book, and directory publishers
Software publishing
Internet publishing and broadcasting and web search portals
Wired telecommunications carriers
Telecommunications, except wired telecommunications carriers
Data processing, hosting, and related services
Libraries and archives
Other information services, except libraries and archives, and internet publishing and broadcasting and web search portal:
Banking and related activities
Savings institutions, including credit unions
Nondepository credit and related activities
Securities, commodities, funds, trusts, and other financial investments
Insurance carriers and related activities
Real estate
Commercial, industrial, and other intangible assets rental and leasing
Legal services
Accounting, tax preparation, bookkeeping, and payroll services
Architectural, engineering, and related services
Specialized design services
Computer systems design and related services
Management, scientific, and technical consulting services
Advertising, public relations, and related services
Other professional, scientific, and technical services
Management of companies and enterprises
Employment services
Business support services
Investigation and security services
Services to buildings and dwellings (except cleaning during construction and immediately after construction)
Offices of physicians
Offices of dentists
Offices of chiropractors
Offices of optometrists
Offices of other health practitioners
Civic, social, advocacy organizations, and grantmaking and giving services
Business, professional, political, and similar organizations

APPENDIX TABLE B-1
INDUSTRY CATEGORIES BY BUILDING TYPE
JOBS HOUSING NEXUS ANALYSIS
SAN FRANCISCO, CA

**Production, Distribution and Repair (PDR)**
Animal food, grain and oilseed milling
Sugar and confectionery products
Fruit and vegetable preserving and specialty food manufacturing
Dairy product manufacturing
Animal slaughtering and processing
Retail bakeries
Bakeries and tortillerias, except retail bakeries
Seafood and other miscellaneous foods, n.e.c.
Not specified food industries
Beverage manufacturing
Tobacco manufacturing
Fiber, yarn, and thread mills
Fabric mills, except knitting mills
Textile and fabric finishing and coating mills
Carpet and rug mills
Textile product mills, except carpets and rugs
Knitting fabric mills, and apparel knitting mills
Cut and sew apparel manufacturing
Apparel accessories and other apparel manufacturing
Footwear manufacturing
Leather tanning and finishing, and other allied products manufacturing
Pulp, paper, and paperboard mills
Paperboard container manufacturing
Miscellaneous paper and pulp products
Printing and related support activities
Petroleum refining
Miscellaneous petroleum and coal products
Resin, synthetic rubber, and fibers and filaments manufacturing
Agricultural chemical manufacturing
Pharmaceutical and medicine manufacturing
Paint, coating, and adhesive manufacturing
Soap, cleaning compound, and cosmetics manufacturing
Industrial and miscellaneous chemicals
Plastics product manufacturing
Tire manufacturing
Rubber products, except tires, manufacturing
Pottery, ceramics, and plumbing fixture manufacturing
Clay building material and refractories manufacturing
Glass and glass product manufacturing
Cement, concrete, lime, and gypsum product manufacturing
Miscellaneous nonmetallic mineral product manufacturing
Iron and steel mills and steel product manufacturing
Aluminum production and processing
Nonferrous metal (except aluminum) production and processing
Foundries
Metal forgings and stampings
Cutlery and hand tool manufacturing
Structural metals, and boiler, tank, and shipping container manufacturing
Machine shops; turned product; screw, nut and bolt manufacturing
Coating, engraving, heat treating and allied activities
Ordnance
Miscellaneous fabricated metal products manufacturing
Not specified metal industries
Agricultural implement manufacturing
Construction, and mining and oil and gas field machinery manufacturing
Commercial and service industry machinery manufacturing

Metalworking machinery manufacturing
Engine, turbine, and power transmission equipment manufacturing
Machinery manufacturing, n.e.c. or not specified
Navigational, measuring, electromedical, and control instruments manufacturing
Household appliance manufacturing
Electric lighting and electrical equipment manufacturing, and other electrical component manufacturing, n.e.c.
Motor vehicles and motor vehicle equipment manufacturing
Aircraft and parts manufacturing
Aerospace products and parts manufacturing
Railroad rolling stock manufacturing
Ship and boat building
Other transportation equipment manufacturing
Sawmills and wood preservation
Veneer, plywood, and engineered wood products
Prefabricated wood buildings and mobile homes
Miscellaneous wood products
Furniture and related product manufacturing
Medical equipment and supplies manufacturing
Sporting and athletic goods, and doll, toy and game manufacturing
Miscellaneous manufacturing, n.e.c.
Not specified manufacturing industries
Motor vehicle and motor vehicle parts and supplies merchant wholesalers
Furniture and home furnishing merchant wholesalers
Lumber and other construction materials merchant wholesalers
Professional and commercial equipment and supplies merchant wholesalers
Metals and minerals (except petroleum) merchant wholesalers
Household appliances and electrical and electronic goods merchant wholesalers
Hardware, and plumbing and heating equipment, and supplies merchant wholesalers
Machinery, equipment, and supplies merchant wholesalers
Recyclable material merchant wholesalers
Miscellaneous durable goods merchant wholesalers
Paper and paper products merchant wholesalers
Drugs, sundries, and chemical and allied products merchant wholesalers
Apparel, piece goods, and notions merchant wholesalers
Grocery and related product merchant wholesalers
Farm product raw material merchant wholesalers
Petroleum and petroleum products merchant wholesalers
Alcoholic beverages merchant wholesalers
Farm supplies merchant wholesalers
Miscellaneous nondurable goods merchant wholesalers
Wholesale electronic markets and agents and brokers
Not specified wholesale trade
Services incidental to transportation
Warehousing and storage
Automotive equipment rental and leasing
Veterinary services
Landscaping services
Other administrative and other support services
Waste management and remediation services
Automotive repair and maintenance
Car washes
Electronic and precision equipment repair and maintenance
Commercial and industrial machinery and equipment repair and maintenance
Personal and household goods repair and maintenance

Research and Development (R&D)
Scientific research and development services

APPENDIX TABLE B-1
INDUSTRY CATEGORIES BY BUILDING TYPE
JOBS HOUSING NEXUS ANALYSIS
SAN FRANCISCO, CA

**Retail**
Automobile dealers
Other motor vehicle dealers
Automotive parts, accessories, and tire stores
Furniture and home furnishings stores
Household appliance stores
Electronics stores
Building material and supplies dealers
Hardware stores
Lawn and garden equipment and supplies stores
Grocery stores
Specialty food stores
Beer, wine, and liquor stores
Pharmacies and drug stores
Health and personal care, except drug, stores
Gasoline stations
Clothing stores
Shoe stores
Jewelry, luggage, and leather goods stores
Sporting goods, and hobby and toy stores
Sewing, needlework, and piece goods stores
Musical instrument and supplies stores
Book stores and news dealers
Department stores and discount stores
Miscellaneous general merchandise stores
Retail florists
Office supplies and stationery stores
Used merchandise stores
Gift, novelty, and souvenir shops
Miscellaneous retail stores
Electronic shopping
Electronic auctions
Mail-order houses
Vending machine operators
Fuel dealers
Other direct selling establishments
Not specified retail trade
Video tape and disk rental
Other consumer goods rental
Travel arrangements and reservation services
Restaurants and other food services
Drinking places, alcoholic beverages
Barber shops
Beauty salons
Nail salons and other personal care services
Drycleaning and laundry services
Funeral homes, and cemeteries and crematories
Other personal services

**Entertainment**
Motion pictures and video industries
Performing arts, spectator sports, and related industries
Bowling centers
Other amusement, gambling, and recreation industries

**Hotel**
Traveler accommodation

APPENDIX TABLE B-1
INDUSTRY CATEGORIES BY BUILDING TYPE
JOBS HOUSING NEXUS ANALYSIS
SAN FRANCISCO, CA

**Institutional**

Elementary and secondary schools
Colleges, universities, and professional schools, including junior colleges
Business, technical, and trade schools and training
Other schools and instruction, and educational support services
Individual and family services
Community food and housing, and emergency services
Vocational rehabilitation services
Child day care services
Museums, art galleries, historical sites, and similar institutions
Religious organizations

**Medical**

Outpatient care centers
Other health care services
Hospitals
Nursing care facilities (skilled nursing facilities)
Residential care facilities, except skilled nursing facilities

## APPENDIX C: NON-DUPLICATION BETWEEN FEES UNDER INCLUSIONARY AFFORDABLE HOUSING AND JOBS HOUSING LINKAGE PROGRAMS

San Francisco has affordable housing fees for residential and non-residential development. Fees applicable to residential development (the "Inclusionary Housing Fee") are described in the Inclusionary Affordable Housing Program (Planning Code section 415 et seq.) and are supported by a separate nexus analysis prepared by KMA in 2016, the Residential Affordable Housing Nexus Analysis ("Residential Nexus"). Fees applicable to non-residential development (the "Jobs Housing Linkage Fee" or "JHLF Fee") are described in the Jobs Housing Linkage Program (Planning Code section 413 et seq.) and are supported by this nexus study ("Jobs Housing Nexus"). This Jobs Housing Nexus and the separate Residential Nexus both document the employment impacts of new development and the resulting need for affordable housing for those new workers. This appendix examines the potential for overlap between the two nexus fees.

## A. Overview of the Two Affordable Housing Nexus Studies and Potential for Overlap

To briefly summarize the Jobs Housing Nexus, the logic begins with jobs located in new workplace buildings including office buildings, retail spaces and hotels. The Jobs Housing Nexus then identifies the income of the new worker households and the number of housing units needed by housing affordability level. The analysis concludes with the number of affordable units needed per 1,000 square feet of non-residential building area to house the new workers.

In the Residential Nexus, the logic begins with the households purchasing or renting new market rate units. The purchasing power of those households generates new jobs in the local economy. The nexus analysis quantifies the jobs created by the spending of the new households and then identifies the compensation structure of the new jobs, the income of the new worker households, and the housing affordability level of the new worker households, concluding with the number of new worker households in the lower income affordability levels.

The Jobs Housing Nexus and the Residential Nexus could overlap if both fees are assessed to address the affordable housing demands created by the same new employees.
However, this is unlikely to occur because many of the affordable housing needs for workers counted in this Jobs Housing Nexus are not addressed in the Residential Nexus at all. Firms in office, R&D, and hotel buildings often serve a much broader, sometimes international, market and are generally not focused on providing services to local residents. These non-local serving jobs are not counted in the Residential Nexus.

Retail, which is more local-serving, is the building type that has the greatest potential for overlap between the jobs counted in the Residential Nexus and the Jobs Housing Nexus. However, because daytime and visitor populations contribute a significant portion of the retail demand in San Francisco, most retail is not entirely local serving. Theoretically, there is a set of conditions in which there is substantial overlap between the jobs counted for purposes of the Jobs Housing Nexus and the jobs counted for purposes of the Residential Nexus. For example, a small retail store or restaurant might be located on the ground floor of a new apartment building and entirely dependent upon customers from the apartments in the floors above. In this scenario, the commercial space on the ground floor would pay the Jobs Housing Linkage Fee and the apartments would pay the Inclusionary Housing Fee. In this special case, the two programs could mitigate the affordable housing demand created by the same set of workers. In this event, the combined fees for the two programs should not exceed 100% of the permissible amount pursuant to the Jobs Housing Nexus.

This theoretical example is unlikely to occur based on the following:

(1) The Jobs Housing Linkage Fee has a 25,000-square foot threshold for its application. Most ground floor retail spaces included as part of new residential projects are likely to be smaller than this and therefore would be exempted from the JHLF Program. For pharmacies and grocery stores built as standalone projects or as a component of a mixed-use development with residential, the threshold for application of fees is even larger -- 50,000 square feet and 75,000 square feet respectively.

(2) The overlap between the affordable housing demand mitigated by the two fee programs only occurs to the extent the new retail is being supported entirely by demand from residents in new residential units. In most cases, the larger retail spaces subject to the JHLF Program will be too large to be supported entirely by demand from new residential units. Instead it is more likely that the new retail will serve a broader customer base that also includes visitors, the workplace population and existing residents. As described in Section D below, demand for new retail could be supported by up to 94.9% of new residential customers without exceeding 100% of the permissible amount pursuant to the Jobs Housing Nexus.

(3) The visitor population in San Francisco contributes significantly to retail demand. The San Francisco Travel Association reports visitors to San Francisco spent an estimated $9 billion in 2016, a figure that includes retail as well as other types of visitor spending. Retail in Union Square, Fisherman's Wharf, and many other areas of the City are supported in part by visitor spending.

(4) San Francisco's large workplace and student populations also contribute to retail demand. The Financial District and South of Market are the most obvious examples, but other neighborhoods also have significant daytime populations. For example, near major institutions like the University of California San Francisco and San Francisco State.

(5) Future residential development in San Francisco will occur in infill locations and through redevelopment of previously built properties which, by virtue of being in San Francisco, will be in proximity to existing residential and businesses populations. Even when new retail is added as a component of a very large residential project or in a neighborhood

where much new residential development activity is occurring, new retail space is unlikely to be solely supported by the new residential.

Treasure Island and Hunters Point are special cases of major development projects that include retail that may be primarily supported by new residential. Each project adds thousands of new residential units and is relatively geographically isolated. The potential overlap was not analyzed in these projects, however, because both projects were implemented pursuant to a development agreement. Even so, local serving retail within these developments will still derive some customers from included employment uses, existing residents and visitors.

The analyses provided in Section B., C., and D. of this Appendix demonstrate that the combined mitigation requirements under the Inclusionary Affordable Housing and JHLF Programs would not exceed the maximums supported by the nexus even if significant overlap in the jobs counted in the Residential and Jobs Housing Nexus Analyses were to occur. As discussed, the potential for overlap exists mainly with retail jobs that serve residents of new housing in San Francisco; therefore, the overlap analysis is focused on the retail land use. The analysis expresses the requirements of the Inclusionary Affordable Housing and JHLF Programs in terms of the percentage of the affordable housing impacts documented in each nexus study that are being mitigated. The two mitigations are then evaluated in combination to demonstrate that requirements would not exceed the nexus maximums even if a significant degree of overlap were to occur.

## B. Share of Affordable Unit Need Mitigated by JHLF Program

As the first step to determine if there is substantial overlap between the Jobs Housing Linkage Fee and the Inclusionary Housing Fee, this analysis determines the share of affordable housing impacts that are mitigated by every 1,000 square feet of new retail development subject to the Jobs Housing Linkage Fee. First, it converts the per square foot fee for retail development to a fee per 1,000 sq. feet. This value is then compared to the average local subsidy per affordable unit based on MOHCD data. The average local subsidy per affordable unit reflects construction loan closings and cost certifications for nine affordable housing projects from 2015 to 2017 and represents the net local subsidy without inclusion of other State and Federal subsidy sources.

Based on San Francisco's JHLF Program fees for retail of $25.15 per square foot and an average local subsidy per affordable unit of $235,000, for every 1,000 square feet of retail GFA, San Francisco's retail fee is estimated to result in approximately 0.1070 additional affordable units. The supporting calculation is shown in Table C-1 below.

| Table C-1: Affordable Unit Demand Mitigated by JHLF Program Retail Fee | | | |
|---|---|---|---|
| A. | JHLF Retail Fee Per Sq.Ft. | $25.15 | / Sq.Ft. GFA |
| B. | JHLF Retail Fee Per 1,000 Sq.Ft. | $25,150 | / 1,000 Sq.Ft. GFA |
| C. | Average Local Subsidy Per Unit (from MOHCD) | $235,000 | Per Unit |
| D. | **Affordable Unit Demand Mitigated by JHLF Retail Fees Per 1,000 Sq.Ft.** | 0.1070 | = B. / C. |

Next, the analysis calculates the 1,000 sq. ft. retail fee as a percentage of the maximum supported Jobs Housing Nexus. Table C-2 below shows that the 0.1070 affordable units mitigated by the JHLF Retail Fee per 1,000 square feet is equivalent to approximately 10.5% of the total affordable unit demand of 1.0223 units per 1,000 square feet of new retail development. Thus, San Francisco's retail fee mitigates approximately 10.5% of the subsidy necessary to finance the demand for affordable units generated by new retail space.

| Table C-2: Affordable Unit Demand As Percent of JHLF Nexus Maximum | | | |
|---|---|---|---|
| A. | Affordable Unit Demand Mitigated by JHLF Retail Fees Per 1,000 Sq. Ft. | 1.0223 | Affordable Units per 1,000 Sq.Ft. of GFA |
| B. | Jobs Housing Nexus Study: Maximum Supported Affordable Unit Requirement, per 1,000 Sq. Ft. Retail | 0.1070 | Affordable Units per 1,000 sq.ft. of GFA |
| C. | **Retail Fees per Affordable Unit as a Percent of Maximum JHLF Nexus** | **10.5%** | = A. / B. |

### C. Residential Requirement as a Percent of Maximum Supported

Unlike the JHLF Fees, San Francisco's Inclusionary Affordable Housing Program is expressed as an affordable unit percentage per market rate units in the residential project. The maximum supported affordable unit requirement per market rate unit is 37.6% for ownership units and 31.8% for rental units. In other words, for every 100 market rate units, the maximum number of affordable units that could be supported by the nexus is 37.6 ownership or 31.8 for rental units. The Board of Supervisors adopted 33% and 30% requirements for ownership and rental, respectively. Table C-3 below compares the maximum supported affordable unit percentage to the adopted requirement.

| Table C-3: Affordable Housing Fee as Percent of Maximum Supported by Residential Nexus Analysis | Condominium | Apartment |
|---|---|---|
| A. Adopted Affordable Unit Percentage for Determining Affordable Housing Fees | 33% | 30% |
| B. Maximum Affordable Unit Percentage for Determining Affordable Housing Fee Supported by Nexus Analysis | 37.6% | 31.8% |
| **Adopted Fee per Affordable Unit as Percent of Maximum Residential Nexus (A./B.)** | **87.8%** | **94.3%** |

Source: Keyser Marston Associates, Inc. 2016 Residential Affordable Housing Nexus Analysis.

Thus, San Francisco's Inclusionary Housing Fee is equal to 87.8% of the maximum supported by the Residential Nexus for Condominiums and 94.3% for Apartments.

Currently, the option of providing affordable units onsite represents a lower percentage of the maximum supported by the nexus than does the Affordable Housing Fee; however, this is anticipated to change over time due to scheduled increases in the onsite requirement.

### D. Combined Requirements Within Nexus Maximums Even if Significant Overlap Occurs

This analysis determines the level of permissible overlap between the Jobs Housing Linkage Nexus and the Residential Nexus discussed in Section A, or the extent to which a new retail establishment could rely solely upon retail demand from new residential customers in the same development. Because the JHLF retail fee is set at 10.5% of the maximum nexus amount, there is 89.5% of the demand for affordable units is unmet by the Jobs Housing Linkage Fee.

As described above, the Inclusionary Affordable Housing Program only mitigates affordable housing impacts of new retail to the extent it is supported by spending of residents in new residential units. Based on the fact that the Residential Nexus is set at a 94.3% of the Residential Nexus maximum, the analysis determines that up to 94.9% of demand for new retail space could be derived from new residential units without exceeding the maximums supported by the nexus analysis. Table C-4 shows the derivation of this 94.9% figure.

| Table C-4: Share of Demand for New Retail Derived from New Residential (vs. existing residents, businesses, workers and visitors) to Reach Nexus Maximum | | | |
|---|---|---|---|
| A. | Affordable housing impacts for retail workers unmitigated by JHLF Retail Fee. | 89.5% | = balance after 10.5% mitigated by JHLF fee |
| B. | Inclusionary Affordable Housing Program Fees as Percent of Residential Nexus Maximum | 94.3% | Finding for apartment |
| C. | **Share of Demand for New Retail Derived from New Residential** (vs. existing residents, businesses, workers and visitors) **to Reach Nexus Maximum** | **94.9%** | =A. / B. |

As described in Section A, virtually all new retail space built in San Francisco will derive a significant share of demand from existing residents, visitors, businesses and the workplace population. It is improbable any new retail building subject to the JHLF Program would derive more than 94.9% of its customer base from new residential units. However, to address improbable and unforeseen conditions, San Francisco Planning Code Section 406 explicitly provides for waiver or reduction of fees in the event of duplication or absence of a reasonable relationship. If fees under either program are increased, this analysis should be updated.

# *FINAL MEMORANDUM*

To: Ken Rich and Theodore Conrad, City and County of San Francisco

From: James Musbach, Michael Nimon, and Michelle Chung, EPS

Subject: Jobs-Housing Linkage Fee Update Development Feasibility Assessment; EPS #191029

Date: June 3, 2019

*The Economics of Land Use*

This memorandum has been prepared by Economic & Planning Systems, Inc. (EPS) for the City and County of San Francisco (the City or Client) and documents development feasibility analysis and findings related to the economics of office development and its ability to support contemplated Jobs-Housing Linkage fee increases. The City is currently conducting a Nexus Analysis for the Jobs-Housing Linkage fee update designed to establish a maximum allowable fee that could be imposed on new development. As part of this effort, the City is interested in understanding development feasibility impacts of potential fee increases on new office development in the City's pipeline. The City is interested in maintaining the feasibility of new office development while also making sure that new development "pays its own way", i.e., contributes to the City's funding of affordable housing and other community benefits needed to respond to the growing employment base.

The analysis completed by EPS is based on six office development prototypes summarized in **Table 1**. These prototypes are reflective of high-level office development characteristics associated with projects in the City's development pipeline. This financial analysis is based on EPS's ongoing and previously completed work in San Francisco as well as technical input from City staff and Seifel Consulting, including development impact fee schedules and cost estimates, review of key assumptions, and definition of prototypes. It also incorporates stakeholder comments received during the presentation to the development community on April 29, 2019. Key findings are described below.

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**Table 1 Development Prototypes**

| Prototype | 1<br>Central SoMa - Large Cap (Large) | 2<br>Central SoMa - Large Cap (Medium) | 3<br>Central SoMa - Small Cap | 4<br>Transit Center - Large Cap | 5<br>Eastern Neighborhoods (EN) - Small Cap | 6<br>Eastern Neighborhoods (EN) - Large Cap |
|---|---|---|---|---|---|---|
| Site Assumptions | | | | | | |
| Neighborhood | Central SoMa | Central SoMa | Central SoMa | Transit Center | EN | EN |
| Lot Area (sq. ft.) | 90,000 | 35,000 | 13,000 | 20,000 | 10,500 | 20,000 |
| Floor Area Ratio (FAR) | 9.7 | 7.7 | 4.8 | 19.4 | 5.6 | 6.3 |
| Building Assumptions (1) | | | | | | |
| Building Height | 200 | 160 | 65 | 400 | 85 | 130 |
| Total Gross Floor Area (w/o parking) (sq. ft.) | 870,000 | 270,000 | 62,000 | 388,000 | 59,000 | 125,000 |
| Office | 800,000 | 245,000 | 49,900 | 372,000 | 49,900 | 110,000 |
| PDR | 45,000 | 17,500 | 6,500 | 0 | 0 | 10,000 |
| Retail | 14,000 | 4,500 | 3,600 | 13,000 | 8,100 | 2,000 |
| Other | 11,000 | 3,000 | 2,000 | 3,000 | 1,000 | 3,000 |
| Efficiency Ratio | 89% | 89% | 89% | 89% | 89% | 89% |
| Total Net Floor Area (w/o parking) (sq. ft.) | 774,300 | 240,300 | 55,180 | 345,320 | 52,510 | 111,250 |
| Office | 712,000 | 218,050 | 44,411 | 331,080 | 44,411 | 97,900 |
| PDR | 40,050 | 15,575 | 5,785 | 0 | 0 | 8,900 |
| Retail | 12,460 | 4,005 | 3,204 | 11,570 | 7,209 | 1,780 |
| Other | N/A | N/A | N/A | N/A | N/A | N/A |
| Existing PDR | 45,000 | 17,500 | 6,500 | 0 | 0 | 10,000 |
| Parking Spaces | 272 | 88 | 23 | 91 | 16 | 29 |

(1) Estimated by the San Francisco Planning Department and Seifel Consulting.

Source: City of San Francisco; Seifel Consulting; Economic & Planning Systems

# Key Findings

Key findings are described below with the summary of results shown in **Tables 2** and **3**.

1. ***None of the tested office prototypes appears financially feasible based on current market conditions.*** The rapid growth in construction and land costs in recent years, fueled by a high level of development activity in the region, has resulted in costs often exceeding office development values, making new development infeasible. Additionally, City-imposed community benefits costs, such as CFD special taxes and Proposition C commercial rent taxes, also add to the overall cost burden. The pro forma analysis indicates that all six office development prototypes have a negative development return with costs exceeding revenues and developer returns falling below the feasibility threshold, as shown in **Table 2.**

2. ***Office development will become feasible for certain prototypes once the market normalizes with land values, construction costs, and building values becoming more aligned.*** EPS constructed this hypothetical scenario to test fee increases on development economics of projects that are feasible (the Pipeline Scenario). This scenario assumes 25 percent reductions to land value and construction cost, as well as a 13 percent increase in rents. These changes are intended to illustrate the potential economics of the office projects in the City's pipeline that may have locked in favorable deal terms or are opportunistically positioned to capitalize on potential market improvements. Feasibility of various office prototypes under the Pipeline Scenario is shown in **Table 3.**

3. ***Once market conditions improve sufficiently to support the feasibility of office development, the analysis suggests that some modest level of fee increase may be viable.*** With five of the six tested prototypes being feasible in the Pipeline Scenario, some are estimated to remain feasible with fee increases of up to $10 per square foot. This increase equates to 35 percent over the existing Jobs-Housing Linkage fee level and is shown to be supported by Prototype 3 (with $5 per square foot increases supported by Prototypes 3, 5, and 6). The extent of the supportable fee increase, if any, will vary by prototype, project-specific criteria, location within the City, and other factors. However, any more significant cost increase would further jeopardize development feasibility of new office development even after the improvement in the market conditions takes place.

**Table 2 Summary of Feasibility Results – Baseline Scenario**

| Prototype | 1<br>Central SoMa - Large Cap (Large) | 2<br>Central SoMa - Large Cap (Medium) | 3<br>Central SoMa - Small Cap | 4<br>Transit Center - Large Cap | 5<br>Eastern Neighborhoods (EN) - Small Cap | 6<br>Eastern Neighborhoods (EN) - Large Cap |
|---|---|---|---|---|---|---|
| EXISTING COMMERCIAL LINKAGE FEE | | | | | | |
| Profit | ($255,769,651) | ($37,664,709) | ($6,542,480) | ($68,005,374) | ($5,282,456) | ($11,510,688) |
| Return on Cost | -29.2% | -16.4% | -13.9% | -17.5% | -12.3% | -11.8% |
| Stabilized Yield | 4.0% | 4.8% | 4.9% | 4.7% | 5.0% | 5.0% |
| Commercial Linkage Fee as % of Total Cost | 2.7% | 3.1% | 3.2% | 2.8% | 3.8% | 3.3% |
| Commercial Linkage Fee as % of Direct Cost | 5.9% | 6.1% | 5.9% | 6.0% | 6.9% | 6.0% |
| INCREASED COMMERCIAL LINKAGE FEE OPTIONS | | | | | | |
| $5 psf Increase (18% increase over the existing fee) | | | | | | |
| Profit | ($260,596,111) | ($39,236,289) | ($6,869,294) | ($69,518,794) | ($5,316,010) | ($12,273,968) |
| Return on Cost | -29.6% | -17.0% | -14.5% | -17.8% | -12.4% | -12.5% |
| Stabilized Yield | 4.0% | 4.7% | 4.9% | 4.7% | 5.0% | 5.0% |
| Commercial Linkage Fee as % of Total Cost | 3.2% | 3.8% | 3.9% | 3.2% | 3.9% | 4.0% |
| Commercial Linkage Fee as % of Direct Cost | 7.2% | 7.5% | 7.2% | 6.8% | 7.0% | 7.4% |
| $10 psf Increase (35% increase over the existing fee) | | | | | | |
| Profit | ($264,596,111) | ($40,461,289) | ($7,118,794) | ($71,378,794) | ($5,565,510) | ($12,823,968) |
| Return on Cost | -29.9% | -17.4% | -14.9% | -18.2% | -12.9% | -13.0% |
| Stabilized Yield | 4.0% | 4.7% | 4.8% | 4.7% | 5.0% | 4.9% |
| Commercial Linkage Fee as % of Total Cost | 3.6% | 4.3% | 4.4% | 3.7% | 4.5% | 4.6% |
| Commercial Linkage Fee as % of Direct Cost | 8.2% | 8.5% | 8.2% | 7.9% | 8.1% | 8.5% |
| $15 psf Increase (53% increase over the existing fee) | | | | | | |
| Profit | ($268,596,111) | ($41,686,289) | ($7,368,294) | ($73,238,794) | ($5,815,010) | ($13,373,968) |
| Return on Cost | -30.3% | -17.8% | -15.4% | -18.6% | -13.4% | -13.5% |
| Stabilized Yield | 4.0% | 4.7% | 4.8% | 4.6% | 4.9% | 4.9% |
| Commercial Linkage Fee as % of Total Cost | 4.1% | 4.8% | 4.9% | 4.1% | 5.0% | 5.1% |
| Commercial Linkage Fee as % of Direct Cost | 9.2% | 9.6% | 9.1% | 8.9% | 9.1% | 9.5% |
| $20 psf Increase (70% increase over the existing fee) | | | | | | |
| Profit | ($272,596,111) | ($42,911,289) | ($7,617,794) | ($75,098,794) | ($6,064,510) | ($13,923,968) |
| Return on Cost | -30.6% | -18.3% | -15.8% | -19.0% | -13.9% | -14.0% |
| Stabilized Yield | 3.9% | 4.6% | 4.8% | 4.6% | 4.9% | 4.9% |
| Commercial Linkage Fee as % of Total Cost | 4.5% | 5.3% | 5.4% | 4.6% | 5.6% | 5.6% |
| Commercial Linkage Fee as % of Direct Cost | 10.2% | 10.6% | 10.1% | 9.9% | 10.2% | 10.6% |

strongly feasible
feasible
infeasible

**Table 3 Summary of Feasibility Results – Pipeline Scenario**

| Prototype | 1<br>Central SoMa - Large Cap (Large) | 2<br>Central SoMa - Large Cap (Medium) | 3<br>Central SoMa - Small Cap | 4<br>Transit Center - Large Cap | 5<br>Eastern Neighborhoods (EN) - Small Cap | 6<br>Eastern Neighborhoods (EN) - Large Cap |
|---|---|---|---|---|---|---|
| EXISTING COMMERCIAL LINKAGE FEE | | | | | | |
| Profit | $10,653,059 | $34,280,839 | $7,873,445 | $58,176,757 | $6,610,483 | $16,127,507 |
| Return on Cost | 1.5% | 18.8% | 20.9% | 18.9% | 18.8% | 20.2% |
| Stabilized Yield | 5.8% | 6.8% | 6.9% | 6.8% | 6.8% | 6.8% |
| Commercial Linkage Fee as % of Total Cost | 3.4% | 3.9% | 4.0% | 3.6% | 4.7% | 4.0% |
| Commercial Linkage Fee as % of Direct Cost | 7.9% | 8.1% | 7.9% | 8.0% | 9.2% | 8.0% |
| INCREASED COMMERCIAL LINKAGE FEE OPTIONS | | | | | | |
| $5 psf Increase (18% increase over the existing fee) | | | | | | |
| Profit | $5,826,599 | $32,709,259 | $7,546,631 | $56,663,337 | $6,576,929 | $15,364,227 |
| Return on Cost | 0.8% | 17.8% | 19.8% | 18.3% | 18.7% | 19.1% |
| Stabilized Yield | 5.7% | 6.7% | 6.8% | 6.7% | 6.8% | 6.8% |
| Commercial Linkage Fee as % of Total Cost | 4.0% | 4.7% | 4.9% | 4.0% | 4.8% | 4.9% |
| Commercial Linkage Fee as % of Direct Cost | 9.5% | 9.9% | 9.6% | 9.1% | 9.4% | 9.9% |
| $10 psf Increase (35% increase over the existing fee) | | | | | | |
| Profit | $1,826,599 | $31,484,259 | $7,297,131 | $54,803,337 | $6,327,429 | $14,814,227 |
| Return on Cost | 0.3% | 17.0% | 19.1% | 17.6% | 17.9% | 18.2% |
| Stabilized Yield | 5.7% | 6.6% | 6.8% | 6.7% | 6.7% | 6.7% |
| Commercial Linkage Fee as % of Total Cost | 4.6% | 5.3% | 5.5% | 4.6% | 5.4% | 5.6% |
| Commercial Linkage Fee as % of Direct Cost | 10.9% | 11.3% | 10.9% | 10.5% | 10.8% | 11.3% |
| $15 psf Increase (53% Increase over the existing fee) | | | | | | |
| Profit | ($2,173,401) | $30,259,259 | $7,047,631 | $52,943,337 | $6,077,929 | $14,264,227 |
| Return on Cost | -0.3% | 16.2% | 18.3% | 16.9% | 17.0% | 17.5% |
| Stabilized Yield | 5.7% | 6.6% | 6.7% | 6.6% | 6.7% | 6.7% |
| Commercial Linkage Fee as % of Total Cost | 5.1% | 6.0% | 6.1% | 5.2% | 6.1% | 6.2% |
| Commercial Linkage Fee as % of Direct Cost | 12.3% | 12.8% | 12.2% | 11.8% | 12.2% | 12.7% |
| $20 psf Increase (70% increase over the existing fee) | | | | | | |
| Profit | ($6,173,401) | $29,034,259 | $6,798,131 | $51,083,337 | $5,828,429 | $13,714,227 |
| Return on Cost | -0.9% | 15.5% | 17.5% | 16.2% | 16.2% | 16.7% |
| Stabilized Yield | 5.6% | 6.6% | 6.7% | 6.6% | 6.6% | 6.6% |
| Commercial Linkage Fee as % of Total Cost | 5.7% | 6.6% | 6.7% | 5.7% | 6.8% | 6.8% |
| Commercial Linkage Fee as % of Direct Cost | 13.6% | 14.2% | 13.5% | 13.2% | 13.6% | 14.1% |

| Cost Reduction | | Office Rent Increase | Legend |
|---|---|---|---|
| Land Cost (does not apply to prototypes 5 & 6): | 25% reduction | 13% increase | strongly feasible |
| Direct Cost (building construction, parking, and site work): | 25% reduction | | feasible |
| | | | infeasible |

# Feasibility Analysis Methodology

## Financial Returns

The analysis is based on six office and mixed-use development prototypes shown in **Table 1.** EPS set up static development pro formas for each prototype designed to solve for project return as a measure of feasibility. Expected returns on development investment vary based on a range of factors such as developer-specific risk tolerance and access to capital, capital and real estate market conditions, building uses, financial stability and strength of tenants, and other factors. Specifically, this analysis is based on two types of returns with each described below, taking into account capitalization rate data reported for Class A office space,[1] developer input regarding

[1] Integra Realty Resources (IRR) Viewpoint publication for 2019, publishes an annual IRR Viewpoint report on commercial real estate trends across the United States that presents capitalization (cap) rates among other critical real estate market indicators. Historically, cap rates in San Francisco have ranged between 4.0 and 10 percent for occupied properties, with reversionary cap rates for new office developments being higher to account for the risk associated with new development. The 2019 IRR Viewpoint report indicates a reversionary cap rate for downtown CBD office space in San Francisco of 5.5 percent, which is among the lowest cap rates for new office space in the United States. Cap rates are often benchmarked against interest rates for long-term Treasuries, and the reversionary cap rate takes into account that long-term interest rates may increase over time among other real estate factors that may affect future values once a new building is fully stabilized.

return threshold requirements of their capital partners, as well as EPS experience with comparable projects. It is worth noting that while each developer has a specific return requirement based on its business structure, access to capital, risk tolerance, and other business-specific factors, the numbers below reflect the broader market average for a typical developer. Detailed pro formas for the baseline scenario are included in **Appendix A** and for the pipeline scenario in **Appendix B**.

- **Stabilized yield**, also known as cash-on-cash return, is net operating income divided by total cost. This is a common return measure for commercial property that captures performance from a long-term operator of a cash-flow asset. This measure is based on a stabilized cap rate (assumed at 5.5 percent in this analysis) plus an additional "spread" of 130 basis points to reflect a development risk premium.[2] As such, this analysis assumes a threshold yield of 6.8 percent or above that would be needed to make new office development feasible.

- **Return on cost** is the net building value based on the capitalization of the net operating income at stabilization (stabilized NOI divided by the cap rate) divided by total development cost. This is a typical return threshold that takes into account the spread between the cap rate and the stabilized yield, as described above. As such, this analysis assumes a required return on cost of 18 percent or above for Class A office development in San Francisco based on capital market dynamics, real estate trends, and other factors.

Financial returns are market-based, with investors facing a range of potential choices reflective of a wide range of risk factors and expected returns. With 10-year treasury yields (largely perceived as the safest and minimal risk investment that mirrors inflation) offering returns of about 2.5 percent a year, other investments with higher risk require a higher return in the capital market. In order to attract investment, particularly from institutions like pension and insurance funds that provide a significant amount of real estate investment capital, new development must offer significantly higher stabilized yields.

As described above, this analysis assumes cap rates of 5.5 percent across all prototypes once they have been developed and reached stabilized occupancy. San Francisco is largely perceived as a strong, mature, and well-established office market with some of the lowest return requirements for office investment across the nation, on par with Los Angeles and New York. However, development risk (e.g., the potential for unexpected costs associated with entitlement processes, site conditions, and fluctuations in the markets for materials and labor costs) adds an additional layer of uncertainty to investors, with a typical spread of 130 basis points needed to

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[2] The "spread" or difference between the cap rate and stabilized yield accounts for the developer return on profit reflective of the risk that development values at project stabilization may significantly differ from current conditions. This analysis uses the 130 basis point spread (1.3 percent) as the minimum threshold of feasibility for a typical office development. If a developer could secure a long-term lease with an investment grade tenant (e.g. a Fortune 100 company) for most of the office space prior to construction, the required spread would be reduced. If a property has a higher risk profile, such as a less desirable location, challenging office market, or extended entitlement and/or construction period, the required spread would increase.

attract investment to new office development projects. Even small fluctuations in stabilized yields can significantly affect investor decisions.

## Revenues

Lease rates used in this analysis are summarized in **Table 4** and are based on CoStar data with an assumed 10 percent increase that reflects the top of the market rents developers seek to underwrite development investment. Rents are reflective of location factors within the City as well as potential view premiums likely to be supported by taller buildings. Office rents are assumed to be full-service (landlords are responsible for operating expenses), whereas retail and PDR rents are triple-net (tenants are responsible for operating expenses). The Pipeline scenario reflects development after another rent 13 percent rent increase, assumed to be needed along with assumed cost reductions in order to reach feasibility under the existing commercial linkage fee scenario, as shown in **Table 3**.

**Table 4 Key Revenue Assumptions (Baseline Scenario)**

| Prototype | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Neighborhood | Central SoMa | Central SoMa | Central SoMa | Transit Center | EN | EN |
| Building Height | 200 | 160 | 65 | 400 | 85 | 130 |
| Office (full-service per net sq. ft. per year; rounded) | $86 | $86 | $83 | $101 | $73 | $77 |
| Retail (NNN per net sq. ft. per year) | $40 | $40 | $40 | $48 | $40 | $40 |
| PDR (NNN per net sq. ft. per year) | $30 | $30 | $30 | $30 | $30 | $30 |
| Gross Parking (per space per month) | $400 | $400 | $400 | $450 | $300 | $300 |
| Net Parking (per space per month) (1) | $280 | $280 | $280 | $315 | $210 | $210 |

(1) Excludes operating expenses assumed at 10% and parking taxes assumed at 20%.

Source: CoStar April 2019 search for lease rates by neighborhood for spaces built since 2015, parking revenue assumption provided by Seifel Consulting

This analysis assumes net parking revenue (after parking taxes and expenses) of $210 per space per month for Eastern Neighborhoods, $280 for Central SoMa, and $315 for Transit Center. The parking revenues per space are based on average monthly parking rates that were provided by Seifel Consulting and are typical in San Francisco.

## Operating Expenses and Vacancy

As shown in **Table 5**, commercial operating expenses depend on the lease rate structure for each asset type. Operating expenses for retail and PDR are assumed to be recoverable from the tenant, consistent with a triple-net lease structure. Parking is based on net revenues referenced above. Office operating costs reflect 30 percent of full-service rents. These expenses typically cover property management, administration, maintenance, utilities, insurance, and property taxes. Additionally, leasing commissions are assumed at 2.5 percent of gross annual revenue to account for typical fees paid to leasing brokers.

## Table 5 Key Operating, Development, and Land Cost Assumptions (Baseline Scenario)

| Prototype | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|
| Neighborhood | Central SoMa | Central SoMa | Central SoMa | Transit Center | EN | EN |
| Building Height | 200 | 160 | 65 | 400 | 85 | 130 |
| **Operating Costs** | | | | | | |
| Operating Expenses (for Office) | 30% | 30% | 30% | 30% | 30% | 30% |
| Vacancy Rate | 5% | 5% | 5% | 5% | 5% | 5% |
| Leasing Commissions | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% | 2.5% |
| Mello-Roos CFD Special Tax [1] | $3,532,520 | $1,082,510 | $229,012 | $2,105,700 | $0 | $0 |
| Prop C Early Care and Education Commercial Rents Tax [2] | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% | 3.5% |
| **Development Costs** | | | | | | |
| Land Cost (per FAR sq. ft., rounded) | $130 | $160 | $210 | $480 | $280 | $180 |
| Building Cost (per gross sq.ft.) | $420 | $400 | $380 | $450 | $380 | $400 |
| Parking (per space) | $66,000 | $66,000 | $66,000 | $66,000 | $66,000 | $66,000 |
| Parking (per sq.ft.) | $200 | $200 | $200 | $200 | $200 | $200 |
| Site Improvement (per gross sq. ft.) | $10 | $10 | $10 | $5 | $5 | $10 |
| Tenant Improvements | | | | | | |
| Office [3] | $90 | $90 | $90 | $100 | $80 | $80 |
| Retail [3] | $100 | $100 | $100 | $100 | $100 | $100 |
| Contingency | 7.5% | 7.5% | 7.5% | 7.5% | 7.5% | 7.5% |
| Architecture and Engineering | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% |
| Project and Construction Management | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Other Expenses (Legal, Inspections) | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| General and Administrative | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% |
| Financing | 6.0% | 6.0% | 5.0% | 6.0% | 5.0% | 6.0% |
| Fees [4] | Tier C | Tier C | Tier B | TCDP | Tier 3 | Tier 3 |
| Existing Jobs Housing Linkage Fee | $23,229,240 | $7,119,620 | $1,521,619 | $10,974,620 | $1,641,589 | $3,196,020 |
| Eastern Neighborhoods Infrastructure Impact Fee | $17,004,675 | $5,150,175 | $1,034,175 | $0 | $1,218,000 | $2,352,000 |
| Central SoMa TDR Purchase | $2,812,500 | $1,093,750 | $0 | $0 | $0 | $0 |
| Central SoMa Area Plan Fee | $0 | $0 | $1,070,000 | $0 | $0 | $0 |
| Central SoMa Community Facilities Fee | $1,424,500 | $436,625 | $93,625 | $0 | $0 | $0 |
| TCDP Transportation and Street Improvement Fee | $0 | $0 | $0 | $6,036,740 | $0 | $0 |
| TCDP Open Space fee | $0 | $0 | $0 | $1,033,550 | $0 | $0 |
| TCDP Transit Delay Mitigation Fee | $0 | $0 | $0 | $134,890 | $0 | $0 |
| Transit Center TDR purchase ($/sf) | $0 | $0 | $0 | $1,500,000 | $0 | $0 |
| Transportation Sustainability Fee | $19,287,563 | $5,716,983 | $1,135,805 | $8,974,403 | $1,231,340 | $2,411,483 |
| Child Care Fee | $1,480,000 | $453,250 | $92,315 | $688,200 | $92,315 | $203,500 |
| Public Art Fee (% of construction cost) | 1% | 1% | 1% | 1% | 1% | 1% |
| School Impact Fee | $496,344 | $152,132 | $32,585 | $234,668 | $35,267 | $68,292 |
| Other Fees [5] | $569,610 | $179,135 | $59,532 | $314,286 | $92,110 | $82,784 |

[1] Mello-Roos CFD Special Tax. Estimated by Seifel Consulting.
[2] Prop C Early Care and Education Commercial Rents Tax effective January 1, 2019.
[3] Reflects the landlord portion of the improvements; tenants typically contribute additional funds towards higher levels of overall improvements.
[4] Fees based on City of San Francisco fee schedule effective January 1, 2019, and are estimated by Seifel Consulting.
[5] Water and wastewater capacity charge.

In addition to the operating expenses described above, this analysis accounts for the local community benefit costs that include the recently approved Central SoMa Mello-Roos Community Facilities District (CFD)[3] and the Proposition C Early Care and Educational Commercial Rents Tax.[4] Both community benefit costs are charged on an annual basis and substantially affect capitalized office values, as they increase annual expenses and reduce net operating income.[5]

This analysis reflects a vacancy rate of 5 percent. This is an optimistic assumption with vacancy rate for office uses historically ranging between 5 and 10 percent.

### Development Costs

Development costs consist of direct construction costs, indirect costs (including fees), and project contingency with key cost assumptions summarized in **Table 5**. Total costs (including land value) range between about $720 and $1,000 per square foot depending on the prototype. The direct cost for new construction has rapidly increased over the past several years due to strong growth in the economy, large-scale development activity, and resulting demand for construction services and materials. For the purpose of this analysis, direct construction costs are estimated to range between $380 and $450 per square foot with the highest cost in the Transit Center. These cost estimates are based on review of recent projects in San Francisco and reflect differences in size, height, density, and location between the prototypes. Parking costs are estimated at $66,000 per space across all prototypes, assuming parking is provided below grade.

Indirect costs include tenant improvements ($80 to $100 per square foot for office and $100 per square foot for retail), architecture and engineering (8 percent of direct costs), project and construction management (3 percent of direct costs), legal and inspections (3 percent of direct costs), general and administrative (3 percent of direct costs), financing (range of 5 to 6 percent of direct costs), and development fees.

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[3] Codified December 2018, the Central SoMa Mello-Roos Community Facilities District (CFD) Special Tax applies to prototypes in Central SoMa and is levied to fund public amenities and infrastructure in the district. The Transit Center District also has a similar CFD special tax, which was adopted earlier. The tax is $4.36 per gross square foot for office in Central SoMa and $5.52 per gross square foot in the Transit Center, and $3.18 per gross square for retail in Central SoMa and $4.02 per gross square foot in the Transit Center, subject to annual rate escalations. The Central SoMa Mello-Roos CFD Program participation requirement applies to projects in the Plan area that include new construction or the net addition of more than 25,000 gross square feet of non-residential development on "Tier B" or "Tier C" properties (Planning Code Section 423).

[4] Effective 2019, Prop C Early Care and Education Commercial Rents Tax imposes a new gross receipts tax of 3.5 percent of building lease income on commercial spaces in the City. Each of the prototypes in this analysis (office, retail, and PDR) would be subject to this tax.

[5] As described earlier, office values are based on stabilized net operating income divided by the assumed cap rate.

Development fees include the Child Care Fee, Public Art Fee, School Impact Fee, Transportation Sustainability Fee, Water Capacity Charge, Wastewater Capacity Charge, any neighborhood-specific fees as well as the existing Jobs-Housing Linkage Fee.[6] Cost estimates are based on the City of San Francisco fee schedule effective January 1, 2019 and estimated for each prototype by the Planning Department and Seifel Consulting. Indirect costs also include a 7.5 percent contingency across all prototypes.

## Land Values

Land values are estimated for each prototype based on CoStar sales data since 2015 for land zoned for commercial buildings by neighborhood and adjusted from a sales value per acre basis to a per floor area ratio (FAR) basis to reflect the range of densities across the prototypes. Because land values are largely determined by allowable development capacity, initial land sale comps are adjusted to result in the land value range of between $180 and $280 per FAR foot in Central SoMa and Eastern Neighborhoods, as shown in **Table 5.** Only the Transit Center prototype generates a higher land value of $480 per FAR foot associated with its central transit-rich location and building heights. Determination of land value for office and mixed-use development is complicated by a wide range of factors, including market speculation, expectation in changes to land use policy and development cost structure (e.g., Prop M), regional economic and employment dynamics, capital markets, and many other variables.

## Cost Incidence of Fee Increases

Significant increases in development impact fees, particularly those that occur unexpectedly, affect real estate development feasibility in several potential ways. Each of the three potential impacts is described below and is shown in **Figure 1.**

First and foremost, development impact fees increase development costs. As real estate investors have numerous options for investing their capital (including much lower-risk opportunities than real estate as described above), new development must achieve a market adjusted return threshold to attract capital. Thus, a significant increase in impact fees will reduce a developer's ability to attract capital unless a developer is able to decrease other development costs to offset the fee increase or achieve a higher value by raising rents.

Whether office space will be able to command a rent increase will depend on market strength and may lead to the production of fewer buildings. Commercial rents are a function of market conditions, and high office rents are only affordable to a subset of companies with certain business characteristics. Higher rents may not be achievable for many existing tenants in San Francisco given market conditions and would therefore limit the potential tenant pool (for example, may only be affordable to high valued technology companies) and could ripple through the marketplace.

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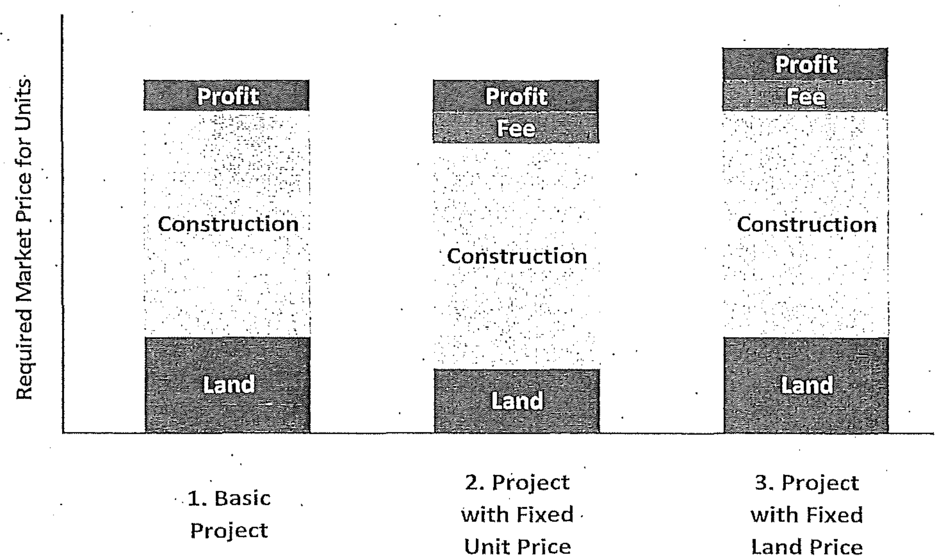
[6] Neighborhood specific impact fees include the Eastern Neighborhoods Infrastructure Impact Fee, Central SoMa TDR Purchase, Central SoMa Area Plan Fee, Central SoMa Community Facilities Fee, TCDP Transportation and Street Improvement Fee, TCDP Open Space Fee, TCDP Transit Delay Mitigation Fee, and Transit Center TDR Purchase. The City's existing Jobs-Housing Linkage Fee is $28.57 per square foot of office and $26.66 per square foot of retail uses.

Since the fee reduces the otherwise achievable value of development, another possible result is a decrease in land value. This may result in landowners being unwilling to sell and, therefore, may further constrain commercial development. Typically, landowners will only sell at a price that is greater than the current value of the property based on existing rents and what they perceive to be the market value of their land. In this case, a developer is unable to negotiate a lower land price, and the construction costs and profit margin are fixed, and thus the market rent or value must be higher for feasibility than would be required under either of the first two scenarios. Under these circumstances, the cost of the fee is borne by consumers (e.g., office tenants), who are paying more than they otherwise might. **Figure 1** below illustrates these dynamics.

In summary, significant increases in fees negatively affect development feasibility and increase the cost burden on development unless there are offsetting reductions in other development costs (such as land) or increases in revenues (market rents), which are not often achievable based on overall market conditions.

**Figure 1 Cost Incidence of a Jobs-Housing Linkage Fee**



# APPENDIX A

Baseline Scenario Pro Formas

Prototype 1
Central SoMa - Large Cap (Large)
200

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 2.1 acres | 90,000 sq.ft. |
| Gross Building Area (excl. parking) | | 870,000 sq.ft. |
| Net Area | 89% efficiency ratio | 774,300 sq.ft. |
| Office (Full-Service) | | 712,000 sq.ft. |
| Retail (NNN) | | 40,050 sq.ft. |
| PDR (NNN) | | 12,460 sq.ft. |
| Parking Spaces | | 272 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $86 per net sq. ft. per year | $61,232,000 |
| Retail (NNN) | $40 per net sq. ft. per year | $1,602,000 |
| PDR (NNN) | $30 per net sq. ft. per year | $373,800 |
| Net Parking Revenue | $280 per space per month | $913,920 |
| Gross Annual Revenue | | $64,121,720 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$18,369,600 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$3,206,086 |
| (less) Commissions | 2.5% of gross annual revenue | -$1,603,043 |
| (less) Mello-Roos CFD Special Tax | $4 avg. per gross sq. ft. | -$3,532,520 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$2,212,273 |
| Net Operating Income | | $35,198,198 |
| Capitalized Value | 5.50% cap rate | $639,967,236 |
| (less) Cost of Sale/Marketing | 3.25% | -$20,798,935 |
| **Net Project Value** | | **$619,168,301** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| Land Cost | $2,500 per lot sq. ft. | $225,000,000 |
| Direct Costs | | |
| Building Construction Cost | $420 per gross sq. ft. | $365,400,000 |
| Parking Construction Cost | $66,000 per space | $17,952,000 |
| Site Improvement Cost | $10 per gross sq. ft. | $8,700,000 |
| Total Direct Costs | | $392,052,000 |
| Indirect Costs | | |
| Tenant Improvements (office) | $90 per sq.ft. | $64,080,000 |
| Tenant Improvements (retail) | $100 per sq.ft. | $4,005,000 |
| Contingency | 7.5% of direct costs | $29,403,900 |
| Architecture and Engineering | 8.0% of direct costs | $31,364,200 |
| Project and Construction Management | 3.0% of direct costs | $11,761,600 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $11,761,600 |
| General and Administrative | 3.0% of direct costs | $11,761,600 |
| Financing | 6.0% of direct costs | $23,523,100 |
| Subtotal Indirect Costs excluding Fees | | $187,661,000 |
| Fees (see Table 5 Fee Summary) | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$27 avg. per gross sq. ft.*** | ***$23,229,240*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $20 avg. per gross sq. ft. | $17,004,675 |
| Central SoMa TDR Purchase | $3 avg. per gross sq. ft. | $2,812,500 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $2 avg. per gross sq. ft. | $1,424,500 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $22 avg. per gross sq. ft. | $19,287,563 |
| Child Care Fee | $2 avg. per gross sq. ft. | $1,480,000 |
| Public Art Fee | 1% of direct costs | $3,920,520 |
| School Impact Fee | $1 avg. per gross sq. ft. | $496,344 |
| Other Fees | $1 avg. per gross sq. ft. | $569,610 |
| Subtotal Fees | $81 avg. per gross sq. ft. | $70,224,952 |
| Total Indirect Costs | | $257,885,952 |
| **Subtotal, Direct and Indirect Costs** | | **$649,937,952** |
| **Total Costs** | | **$874,937,952** |
| **Profit (Net Project Value - Total Costs)** | | **($255,769,651)** |
| **Return on Cost (Profit / Total Cost)** | | **-29.2%** |
| **Stabilized Yield (NOI / Total Cost)** | | **4.0%** |

Source: Economic & Planning Systems, Inc.

Prototype 2
Central SoMa - Large Cap (Medium)
160

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.8 acres | 35,000 sq.ft. |
| Gross Building Area (excl. parking) | | 270,000 sq.ft. |
| Net Area | 89% efficiency ratio | 240,300 sq.ft. |
| Office (Full-Service) | | 218,050 sq.ft. |
| Retail (NNN) | | 15,575 sq.ft. |
| PDR (NNN) | | 4,005 sq.ft. |
| Parking Spaces | | 88 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $86 per net sq. ft. per year | $18,752,300 |
| Retail (NNN) | $40 per net sq. ft. per year | $623,000 |
| PDR (NNN) | $30 per net sq. ft. per year | $120,150 |
| Net Parking Revenue | $280 per space per month | $295,680 |
| Gross Annual Revenue | | $19,791,130 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$5,625,690 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$989,557 |
| (less) Commissions | 2.5% of gross annual revenue | -$494,778 |
| (less) Mello-Roos CFD Special Tax | $4 avg. per gross sq. ft. | -$1,082,510 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$682,340.75 |
| Net Operating Income | | $10,916,255 |
| Capitalized Value | 5.50% cap rate | $198,477,355 |
| (less) Cost of Sale/Marketing | 3.25% | -$6,450,514 |
| **Net Project Value** | | **$192,026,841** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| Land Cost | $1,000 per lot sq. ft. | $35,000,000 |
| Direct Costs | | |
| Building Construction Cost | $400 per gross sq. ft. | $108,000,000 |
| Parking Construction Cost | $66,000 per space | $5,808,000 |
| Site Improvement Cost | $10 per gross sq. ft. | $2,700,000 |
| Total Direct Costs | | $116,508,000 |
| Indirect Costs | | |
| Tenant Improvements (office) | $90 per sq.ft. | $19,624,500 |
| Tenant Improvements (retail) | $100 per sq.ft. | $1,557,500 |
| Contingency | 7.5% of direct costs | $8,738,100 |
| Architecture and Engineering | 8.0% of direct costs | $9,320,600 |
| Project and Construction Management | 3.0% of direct costs | $3,495,200 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $3,495,200 |
| General and Administrative | 3.0% of direct costs | $3,495,200 |
| Financing | 6.0% of direct costs | $6,990,500 |
| Subtotal Indirect Costs excluding Fees | | $56,716,800 |
| Fees (see Table 5 Fee Summary) | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$26 avg. per gross sq. ft.*** | ***$7,119,620*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $19 avg. per gross sq. ft. | $5,150,175 |
| Central SoMa TDR Purchase | $4 avg. per gross sq. ft. | $1,093,750 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $2 avg. per gross sq. ft. | $436,625 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $21 avg. per gross sq. ft. | $5,716,983 |
| Child Care Fee | $2 avg. per gross sq. ft. | $453,250 |
| Public Art Fee | 1% of direct costs | $1,165,080 |
| School Impact Fee | $1 avg. per gross sq. ft. | $152,132 |
| Other Fees | $1 avg. per gross sq. ft. | $179,135 |
| Subtotal Fees | $80 avg. per gross sq. ft. | $21,466,749 |
| Total Indirect Costs | | $78,183,549 |
| **Subtotal, Direct and Indirect Costs** | | **$194,691,549** |
| **Total Costs** | | **$229,691,549** |
| **Profit (Net Project Value - Total Costs)** | | **($37,664,709)** |
| **Return on Cost (Profit / Total Cost)** | | **-16.4%** |
| **Stabilized Yield (NOI / Total Cost)** | | **4.8%** |

Source: Economic & Planning Systems, Inc.

Prototype 3
Central SoMa - Small Cap
65

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.3 acres | 13,000 sq.ft. |
| Gross Building Area (excl. parking) | | 62,000 sq.ft. |
| Net Area | 89% efficiency ratio | 55,180 sq.ft. |
| Office (Full-Service) | | 44,411 sq.ft. |
| Retail (NNN) | | 5,785 sq.ft. |
| PDR (NNN) | | 3,204 sq.ft. |
| Parking Spaces | | 23 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $83 per net sq. ft. per year | $3,686,113 |
| Retail (NNN) | $40 per net sq. ft. per year | $231,400 |
| PDR (NNN) | $30 per net sq. ft. per year | $96,120 |
| Net Parking Revenue | $280 per space per month | $77,280 |
| Gross Annual Revenue | | $4,090,913 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$1,105,834 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$204,546 |
| (less) Commissions | 2.5% of gross annual revenue | -$102,273 |
| (less) Mello-Roos CFD Special Tax | $4 avg. per gross sq. ft. | -$229,012 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$140,477 |
| Net Operating Income | | $2,308,771 |
| Capitalized Value | 5.50% cap rate | $41,977,663 |
| (less) Cost of Sale/Marketing | 3.5% | -$1,469,218 |
| **Net Project Value** | | **$40,508,445** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| Land Cost | $300 per lot sq. ft. | $3,900,000 |
| Direct Costs | | |
| Building Construction Cost | $380 per gross sq. ft. | $23,560,000 |
| Parking Construction Cost | $66,000 per space | $1,518,000 |
| Site Improvement Cost | $10 per gross sq. ft. | $620,000 |
| Total Direct Costs | | $25,698,000 |
| Indirect Costs | | |
| Tenant Improvements (office) | $90 per sq.ft. | $3,996,990 |
| Tenant Improvements (retail) | $100 per sq.ft. | $578,500 |
| Contingency | 7.5% of direct costs | $1,927,400 |
| Architecture and Engineering | 8.0% of direct costs | $2,055,800 |
| Project and Construction Management | 3.0% of direct costs | $770,900 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $770,900 |
| General and Administrative | 3.0% of direct costs | $770,900 |
| Financing | 5.0% of direct costs | $1,284,900 |
| Subtotal Indirect Costs excluding Fees | | $12,156,290 |
| Fees (see Table 5 Fee Summary) | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$25 avg. per gross sq. ft.*** | ***$1,521,619*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $17 avg. per gross sq. ft. | $1,034,175 |
| Central SoMa TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Area Plan Fee | $17 avg. per gross sq. ft. | $1,070,000 |
| Central SoMa Community Facilities Fee | $2 avg. per gross sq. ft. | $93,625 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $18 avg. per gross sq. ft. | $1,135,805 |
| Child Care Fee | $1 avg. per gross sq. ft. | $92,315 |
| Public Art Fee | 1% of direct costs | $256,980 |
| School Impact Fee | $1 avg. per gross sq. ft. | $32,585 |
| Other Fees | $1 avg. per gross sq. ft. | $59,532 |
| Subtotal Fees | $85 avg. per gross sq. ft. | $5,296,635 |
| Total Indirect Costs | | $17,452,925 |
| **Subtotal, Direct and Indirect Costs** | | **$43,150,925** |
| **Total Costs** | | **$47,050,925** |
| **Profit (Net Project Value - Total Costs)** | | **($6,542,480)** |
| **Return on Cost (Profit / Total Cost)** | | **-13.9%** |
| **Stabilized Yield (NOI / Total Cost)** | | **4.9%** |

Source: Economic & Planning Systems, Inc.

Prototype 4
Transit Center - Large Cap
400

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.5 acres | 20,000 sq.ft. |
| Gross Building Area (excl. parking) | | 388,000 sq.ft. |
| Net Area | 89% efficiency ratio | 345,320 sq.ft. |
| Office (Full-Service) | | 331,080 sq.ft. |
| Retail (NNN) | | 0 sq.ft. |
| PDR (NNN) | | 11,570 sq.ft. |
| Parking Spaces | | 91 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $101 per net sq. ft. per year | $33,439,080 |
| Retail (NNN) | $48 per net sq. ft. per year | $0 |
| PDR (NNN) | $30 per net sq. ft. per year | $347,100 |
| Net Parking Revenue | $315 per space per month | $343,980 |
| Gross Annual Revenue | | $34,130,160 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$10,031,724 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$1,706,508 |
| (less) Commissions | 2.5% of gross annual revenue | -$853,254 |
| (less) Mello-Roos CFD Special Tax | $5 avg. per gross sq. ft. | -$2,105,700 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$1,182,516 |
| Net Operating Income | | $18,250,458 |
| Capitalized Value | 5.50% cap rate | $331,826,504 |
| (less) Cost of Sale/Marketing | 3.25% | -$10,784,361 |
| **Net Project Value** | | **$321,042,142** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| **Land Cost** | $4,300 per lot sq. ft. | $86,000,000 |
| **Direct Costs** | | |
| Building Construction Cost | $450 per gross sq. ft. | $174,600,000 |
| Parking Construction Cost | $66,000 per space | $6,006,000 |
| Site Improvement Cost | $5 per gross sq. ft. | $1,940,000 |
| Total Direct Costs | | $182,546,000 |
| **Indirect Costs** | | |
| Tenant Improvements (office) | $100 per sq.ft. | $33,108,000 |
| Tenant Improvements (retail) | $100 per sq.ft. | $0 |
| Contingency | 7.5% of direct costs | $13,691,000 |
| Architecture and Engineering | 8.0% of direct costs | $14,603,700 |
| Project and Construction Management | 3.0% of direct costs | $5,476,400 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $5,476,400 |
| General and Administrative | 3.0% of direct costs | $5,476,400 |
| Financing | 6.0% of direct costs | $10,952,800 |
| Subtotal Indirect Costs excluding Fees | | $88,784,700 |
| Fees (see Table 5 Fee Summary) | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$28 avg. per gross sq. ft.*** | ***$10,974,620*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transportation and Street Improvement Fee | $16 avg. per gross sq. ft. | $6,036,740 |
| TCDP Open Space Fee | $3 avg. per gross sq. ft. | $1,033,550 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $134,890 |
| Transit Center TDR Purchase | $4 avg. per gross sq. ft. | $1,500,000 |
| Transportation Sustainability Fee | $23 avg. per gross sq. ft. | $8,974,403 |
| Child Care Fee | $2 avg. per gross sq. ft. | $688,200 |
| Public Art Fee | 1% of direct costs | $1,825,460 |
| School Impact Fee | $1 avg. per gross sq. ft. | $234,668 |
| Other Fees | $1 avg. per gross sq. ft. | $314,286 |
| Subtotal Fees | $82 avg. per gross sq. ft. | $31,716,816 |
| Total Indirect Costs | | $120,501,516 |
| **Subtotal, Direct and Indirect Costs** | | $303,047,516 |
| **Total Costs** | | $389,047,516 |
| **Profit (Net Project Value - Total Costs)** | | ($68,005,374) |
| **Return on Cost (Profit / Total Cost)** | | -17.5% |
| **Stabilized Yield (NOI / Total Cost)** | | 4.7% |

Source: Economic & Planning Systems, Inc.

Prototype 5
Eastern Neighborhoods (EN) - Small Cap
85

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.2 acres | 10,500 sq.ft. |
| Gross Building Area (excl. parking) | | 59,000 sq.ft. |
| Net Area | 89% efficiency ratio | 52,510 sq.ft. |
| Office (Full-Service) | | 44,411 sq.ft. |
| Retail (NNN) | | 0 sq.ft. |
| PDR (NNN) | | 7,209 sq.ft. |
| Parking Spaces | | 16 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $73 per net sq. ft. per year | $3,242,003 |
| Retail (NNN) | $40 per net sq. ft. per year | $0 |
| PDR (NNN) | $30 per net sq. ft. per year | $216,270 |
| Net Parking Revenue | $210 per space per month | $40,320 |
| Gross Annual Revenue | | $3,498,593 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$972,601 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$174,929.65 |
| (less) Commissions | 2.5% of gross annual revenue | -$87,464.83 |
| (less) Mello-Roos CFD Special Tax | $0 avg. per gross sq. ft. | $0 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$121,040 |
| Net Operating Income | | $2,142,558 |
| Capitalized Value | 5.50% cap rate | $38,955,601 |
| (less) Cost of Sale/Marketing | 3.5% | -$1,363,446 |
| **Net Project Value** | | **$37,592,155** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| **Land Cost** | $380 per lot sq. ft. | $3,990,000 |
| **Direct Costs** | | |
| Building Construction Cost | $380 per gross sq. ft. | $22,420,000 |
| Parking Construction Cost | $66,000 per space | $1,056,000 |
| Site Improvement Cost | $5 per gross sq. ft. | $295,000 |
| Total Direct Costs | | $23,771,000 |
| **Indirect Costs** | | |
| Tenant Improvements (office) | $80 per sq.ft. | $3,552,880 |
| Tenant Improvements (retail) | $100 per sq.ft. | $0 |
| Contingency | 7.5% of direct costs | $1,782,800 |
| Architecture and Engineering | 8.0% of direct costs | $1,901,700 |
| Project and Construction Management | 3.0% of direct costs | $713,100 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $713,100 |
| General and Administrative | 3.0% of direct costs | $713,100 |
| Financing | 5.0% of direct costs | $1,188,600 |
| Subtotal Indirect Costs excluding Fees | | $10,565,280 |
| Fees (see Table 5 Fee Summary) | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$28 avg. per gross sq. ft.*** | ***$1,641,589*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $21 avg. per gross sq. ft. | $1,218,000 |
| Central SoMa TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $21 avg. per gross sq. ft. | $1,231,340 |
| Child Care Fee | $2 avg. per gross sq. ft. | $92,315 |
| Public Art Fee | 1% of direct costs | $237,710 |
| School Impact Fee | $1 avg. per gross sq. ft. | $35,267 |
| Other Fees | $2 avg. per gross sq. ft. | $92,110 |
| Subtotal Fees | $77 avg. per gross sq. ft. | $4,548,331 |
| Total Indirect Costs | | $15,113,611 |
| **Subtotal, Direct and Indirect Costs** | | **$38,884,611** |
| **Total Costs** | | **$42,874,611** |
| **Profit (Net Project Value - Total Costs)** | | **($5,282,456)** |
| **Return on Cost (Profit / Total Cost)** | | **-12.3%** |
| **Stabilized Yield (NOI / Total Cost)** | | **5.0%** |

Source: Economic & Planning Systems, Inc.

Prototype 6
Eastern Neighborhoods (EN) - Large Cap
130

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.5 acres | 20,000 sq.ft. |
| Gross Building Area (excl. parking) | | 125,000 sq.ft. |
| Net Area | 89% efficiency ratio | 111,250 sq.ft. |
| Office (Full-Service) | | 97,900 sq.ft. |
| Retail (NNN) | | 8,900 sq.ft. |
| PDR (NNN) | | 1,780 sq.ft. |
| Parking Spaces | | 29 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $77 per net sq. ft. per year | $7,538,300 |
| Retail (NNN) | $40 per net sq. ft. per year | $356,000 |
| PDR (NNN) | $30 per net sq. ft. per year | $53,400 |
| Net Parking Revenue | $210 per space per month | $73,080 |
| Gross Annual Revenue | | $8,020,780 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$2,261,490 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$401,039 |
| (less) Commissions | 2.5% of gross annual revenue | -$200,520 |
| (less) Mello-Roos CFD Special Tax | $0 avg. per gross sq. ft. | $0 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$278,170 |
| Net Operating Income | | $4,879,562 |
| Capitalized Value | 5.50% cap rate | $88,719,309 |
| (less) Cost of Sale/Marketing | 3.25% | -$2,883,378 |
| **Net Project Value** | | **$85,835,932** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| Land Cost | $520 per lot sq. ft. | $10,400,000 |
| Direct Costs | | |
| Building Construction Cost | $400 per gross sq. ft. | $50,000,000 |
| Parking Construction Cost | $66,000 per space | $1,914,000 |
| Site Improvement Cost | $10 per gross sq. ft. | $1,250,000 |
| Total Direct Costs | | $53,164,000 |
| Indirect Costs | | |
| Tenant Improvements (office) | $80 per sq.ft. | $7,832,000 |
| Tenant Improvements (retail) | $100 per sq.ft. | $890,000 |
| Contingency | 7.5% of direct costs | $3,987,300 |
| Architecture and Engineering | 8.0% of direct costs | $4,253,100 |
| Project and Construction Management | 3.0% of direct costs | $1,594,900 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $1,594,900 |
| General and Administrative | 3.0% of direct costs | $1,594,900 |
| Financing | 6.0% of direct costs | $3,189,800 |
| Subtotal Indirect Costs excluding Fees | | $24,936,900 |
| Fees (see Table 5 Fee Summary) | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$26 avg. per gross sq. ft.*** | ***$3,196,020*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $19 avg. per gross sq. ft. | $2,352,000 |
| Central SoMa TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $19 avg. per gross sq. ft. | $2,411,483 |
| Child Care Fee | $2 avg. per gross sq. ft. | $203,500 |
| Public Art Fee | 1% of direct costs | $531,640 |
| School Impact Fee | $1 avg. per gross sq. ft. | $68,292 |
| Other Fees | $1 avg. per gross sq. ft. | $82,784 |
| Subtotal Fees | $71 avg. per gross sq. ft. | $8,845,719 |
| Total Indirect Costs | | $33,782,619 |
| Subtotal, Direct and Indirect Costs | | $86,946,619 |
| Total Costs | | $97,346,619 |
| Profit (Net Project Value - Total Costs) | | ($11,510,688) |
| Return on Cost (Profit / Total Cost) | | -11.8% |
| Stabilized Yield (NOI / Total Cost) | | 5.0% |

Source: Economic & Planning Systems, Inc.

# APPENDIX B

## Pipeline Scenario Pro Formas

Prototype 1
Central SoMa - Large Cap (Large)
200

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 2.1 acres | 90,000 sq.ft. |
| Gross Building Area (excl. parking) | | 870,000 sq.ft. |
| Net Area | 89% efficiency ratio | 774,300 sq.ft. |
| Office (Full-Service) | | 712,000 sq.ft. |
| Retail (NNN) | | 40,050 sq.ft. |
| PDR (NNN) | | 12,460 sq.ft. |
| Parking Spaces | | 272 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $97 per net sq. ft. per year | $69,064,000 |
| Retail (NNN) | $40 per net sq. ft. per year | $1,602,000 |
| PDR (NNN) | $30 per net sq. ft. per year | $373,800 |
| Net Parking Revenue | $280 per space per month | $913,920 |
| Gross Annual Revenue | | $71,953,720 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$20,719,200 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$3,597,686.00 |
| (less) Commissions | 2.5% of gross annual revenue | -$1,798,843.00 |
| (less) Mello-Roos CFD Special Tax | $4 avg. per gross sq. ft. | -$3,532,520 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$2,486,393 |
| Net Operating Income | | $39,819,078 |
| Capitalized Value | 5.50% cap rate | $723,983,236 |
| (less) Cost of Sale/Marketing | 3.25% | -$23,529,455 |
| **Net Project Value** | | **$700,453,781** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| Land Cost | $1,875 per lot sq. ft. | $168,750,000 |
| Direct Costs | | |
| Building Construction Cost | $315 per gross sq. ft. | $274,050,000 |
| Parking Construction Cost | $49,500 per space | $13,464,000 |
| Site Improvement Cost | $8 per gross sq. ft. | $6,525,000 |
| Total Direct Costs | | $294,039,000 |
| Indirect Costs | | |
| Tenant Improvements (office) | $90 per sq.ft. | $64,080,000 |
| Tenant Improvements (retail) | $100 per sq.ft. | $4,005,000 |
| Contingency | 7.5% of direct costs | $22,052,900 |
| Architecture and Engineering | 8.0% of direct costs | $23,523,100 |
| Project and Construction Management | 3.0% of direct costs | $8,821,200 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $8,821,200 |
| General and Administrative | 3.0% of direct costs | $8,821,200 |
| Financing | 6.0% of direct costs | $17,642,300 |
| Subtotal Indirect Costs excluding Fees | | $157,766,900 |
| Fees | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$27 avg. per gross sq. ft.*** | ***$23,229,240*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $20 avg. per gross sq. ft. | $17,004,675 |
| Central SoMa TDR Purchase | $3 avg. per gross sq. ft. | $2,812,500 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $2 avg. per gross sq. ft. | $1,424,500 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $22 avg. per gross sq. ft. | $19,287,563 |
| Child Care Fee | $2 avg. per gross sq. ft. | $1,480,000 |
| Public Art Fee | 1% of direct costs | $2,940,390 |
| School Impact Fee | $1 avg. per gross sq. ft. | $496,344 |
| Other Fees | $1 avg. per gross sq. ft. | $569,610 |
| Subtotal Fees | $80 avg. per gross sq. ft. | $69,244,822 |
| Total Indirect Costs | | $227,011,722 |
| **Subtotal, Direct and Indirect Costs** | | **$521,050,722** |
| **Total Costs** | | **$689,800,722** |
| **Profit (Net Project Value - Total Costs)** | | **$10,653,059** |
| **Return on Cost (Profit / Total Cost)** | | **1.5%** |
| **Stabilized Yield (NOI / Total Cost)** | | **5.8%** |

Source: Economic & Planning Systems, Inc.

Prototye 2
Central SoMa - Large Cap (Medium)
160

| Item | Assumption | | Total | |
|---|---|---|---|---|
| DEVELOPMENT PROGRAM | | | | |
| Lot Size | 0.8 | acres | 35,000 | sq.ft. |
| Gross Building Area (excl. parking) | | | 270,000 | sq.ft. |
| Net Area | 89% | efficiency ratio | 240,300 | sq.ft. |
| Office (Full-Service) | | | 218,050 | sq.ft. |
| Retail (NNN) | | | 15,575 | sq.ft. |
| PDR (NNN) | | | 4,005 | sq.ft. |
| Parking Spaces | | | 88 | spaces |
| REVENUE ASSUMPTIONS | | | | |
| Office (Full-Service) | $97 | per net sq. ft. per year | $21,150,850 | |
| Retail (NNN) | $40 | per net sq. ft. per year | $623,000 | |
| PDR (NNN) | $30 | per net sq. ft. per year | $120,150 | |
| Net Parking Revenue | $280 | per space per month | $295,680 | |
| Gross Annual Revenue | | | $22,189,680 | |
| (less) Operating Expenses | 30.0% | of office full-service revenue | -$6,345,255 | |
| (less) Vacancy Rate | 5.0% | of gross annual revenue | -$1,109,484 | |
| (less) Commissions | 2.5% | of gross annual revenue | -$554,742 | |
| (less) Mello-Roos CFD Special Tax | $4 | avg. per gross sq. ft. | -$1,082,510 | |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% | of building lease income | -$766,290.00 | |
| Net Operating Income | | | $12,331,399 | |
| Capitalized Value | 5.50% | cap rate | $224,207,255 | |
| (less) Cost of Sale/Marketing | 3.25% | | -$7,286,736 | |
| **Net Project Value** | | | **$216,920,519** | |
| DEVELOPMENT COST ASSUMPTIONS | | | | |
| Land Cost | $750 | per lot sq. ft. | $26,250,000 | |
| Direct Costs | | | | |
| Building Construction Cost | $300 | per gross sq. ft. | $81,000,000 | |
| Parking Construction Cost | $49,500 | per space | $4,356,000 | |
| Site Improvement Cost | $8 | per gross sq. ft. | $2,025,000 | |
| Total Direct Costs | | | $87,381,000 | |
| Indirect Costs | | | | |
| Tenant Improvements (office) | $90 | per sq.ft. | $19,624,500 | |
| Tenant Improvements (retail) | $100 | per sq.ft. | $1,557,500 | |
| Contingency | 7.5% | of direct costs | $6,553,600 | |
| Architecture and Engineering | 8.0% | of direct costs | $6,990,500 | |
| Project and Construction Management | 3.0% | of direct costs | $2,621,400 | |
| Other Expenses (Legal, Inspections) | 3.0% | of direct costs | $2,621,400 | |
| General and Administrative | 3.0% | of direct costs | $2,621,400 | |
| Financing | 6.0% | of direct costs | $5,242,900 | |
| Subtotal Indirect Costs excluding Fees | | | $47,833,200 | |
| Fees (see Table 4 Fee Summary) | | | | |
| *Fees* | *$26* | *avg. per gross sq. ft.* | *$7,119,620* | *34%* |
| Eastern Neighborhoods Infrastructure Impact Fee | $19 | avg. per gross sq. ft. | $5,150,175 | |
| Central SoMa TDR Purchase | $4 | avg. per gross sq. ft. | $1,093,750 | |
| Central SoMa Area Plan Fee | $0 | avg. per gross sq. ft. | $0 | |
| Central SoMa Community Facilities Fee | $2 | avg. per gross sq. ft. | $436,625 | |
| TCDP Transportation and Street Improvement Fee | $0 | avg. per gross sq. ft. | $0 | |
| TCDP Open Space Fee | $0 | avg. per gross sq. ft. | $0 | |
| TCDP Transit Delay Mitigation Fee | $0 | avg. per gross sq. ft. | $0 | |
| Transit Center TDR Purchase | $0 | avg. per gross sq. ft. | $0 | |
| Transportation Sustainability Fee | $21 | avg. per gross sq. ft. | $5,716,983 | |
| Child Care Fee | $2 | avg. per gross sq. ft. | $453,250 | |
| Public Art Fee | 1% | of direct costs | $873,810 | |
| School Impact Fee | $1 | avg. per gross sq. ft. | $152,132 | |
| Other Fees | $1 | avg. per gross sq. ft. | $179,135 | |
| Subtotal Fees | $78 | avg. per gross sq. ft. | $21,175,479 | |
| Total Indirect Costs | | | $69,008,679 | |
| **Subtotal, Direct and Indirect Costs** | | | $156,389,679 | |
| **Total Costs** | | | $182,639,679 | |
| **Profit (Net Project Value - Total Costs)** | | | $34,280,839 | |
| **Developer Return (Profit / Total Cost)** | | | 19% | |
| **Return on Cost (Profit / Total Cost)** | | | 6.8% | |

Source: Economic & Planning Systems, Inc.

Prototype 3
Central SoMa - Small Cap
65

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.3 acres | 13,000 sq.ft. |
| Gross Building Area (excl. parking) | | 62,000 sq.ft. |
| Net Area | 89% efficiency ratio | 55,180 sq.ft. |
| Office (Full-Service) | | 44,411 sq.ft. |
| Retail (NNN) | | 5,785 sq.ft. |
| PDR (NNN) | | 3,204 sq.ft. |
| Parking Spaces | | 23 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $94 per net sq. ft. per year | $4,174,634 |
| Retail (NNN) | $40 per net sq. ft. per year | $231,400 |
| PDR (NNN) | $30 per net sq. ft. per year | $96,120 |
| Net Parking Revenue | $280 per space per month | $77,280 |
| Gross Annual Revenue | | $4,579,434 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$1,252,390 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$228,972 |
| (less) Commissions | 2.5% of gross annual revenue | -$114,486 |
| (less) Mello-Roos CFD Special Tax | $4 avg. per gross sq. ft. | -$229,012 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$157,575 |
| Net Operating Income | | $2,596,999 |
| Capitalized Value | 5.50% cap rate | $47,218,161 |
| (less) Cost of Sale/Marketing | 3.5% | -$1,652,636 |
| **Net Project Value** | | **$45,565,525** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| Land Cost | $225 per lot sq. ft. | $2,925,000 |
| Direct Costs | | |
| Building Construction Cost | $285 per gross sq. ft. | $17,670,000 |
| Parking Construction Cost | $49,500 per space | $1,138,500 |
| Site Improvement Cost | $8 per gross sq. ft. | $465,000 |
| Total Direct Costs | | $19,273,500 |
| Indirect Costs | | |
| Tenant Improvements (office) | $90 per sq.ft. | $3,996,990 |
| Tenant Improvements (retail) | $100 per sq.ft. | $578,500 |
| Contingency | 7.5% of direct costs | $1,445,500 |
| Architecture and Engineering | 8.0% of direct costs | $1,541,900 |
| Project and Construction Management | 3.0% of direct costs | $578,200 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $578,200 |
| General and Administrative | 3.0% of direct costs | $578,200 |
| Financing | 5.0% of direct costs | $963,700 |
| Subtotal Indirect Costs excluding Fees | | $10,261,190 |
| Fees | | |
| *Existing Jobs Housing Linkage Fee* | *$25 avg. per gross sq. ft.* | *$1,521,619* |
| Eastern Neighborhoods Infrastructure Impact Fee | $17 avg. per gross sq. ft. | $1,034,175 |
| Central SoMa TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Area Plan Fee | $17 avg. per gross sq. ft. | $1,070,000 |
| Central SoMa Community Facilities Fee | $2 avg. per gross sq. ft. | $93,625 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $18 avg. per gross sq. ft. | $1,135,805 |
| Child Care Fee | $1 avg. per gross sq. ft. | $92,315 |
| Public Art Fee | 1% of direct costs | $192,735 |
| School Impact Fee | $1 avg. per gross sq. ft. | $32,585 |
| Other Fees | $1 avg. per gross sq. ft. | $59,532 |
| Subtotal Fees | $84 avg. per gross sq. ft. | $5,232,390 |
| Total Indirect Costs | | $15,493,580 |
| Subtotal, Direct and Indirect Costs | | $34,767,080 |
| Total Costs | | $37,692,080 |
| Profit (Net Project Value - Total Costs) | | $7,873,445 |
| Return on Cost (Profit / Total Cost) | | 20.9% |
| Stabilized Yield (NOI / Total Cost) | | 6.9% |

Source: Economic & Planning Systems, Inc.

Prototype 4
Transit Center - Large Cap
400

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.5 acres | 20,000 sq.ft. |
| Gross Building Area (excl. parking) | | 388,000 sq.ft. |
| Net Area | 89% efficiency ratio | 345,320 sq.ft. |
| Office (Full-Service) | | 331,080 sq.ft. |
| Retail (NNN) | | 0 sq.ft. |
| PDR (NNN) | | 11,570 sq.ft. |
| Parking Spaces | | 91 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $114 per net sq. ft. per year | $37,743,120 |
| Retail (NNN) | $48 per net sq. ft. per year | $0 |
| PDR (NNN) | $30 per net sq. ft. per year | $347,100 |
| Net Parking Revenue | $315 per space per month | $343,980 |
| Gross Annual Revenue | | $38,434,200 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$11,322,936 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$1,921,710.00 |
| (less) Commissions | 2.5% of gross annual revenue | -$960,855.00 |
| (less) Mello-Roos CFD Special Tax | $5 avg. per gross sq. ft. | -$2,105,700 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$1,333,158 |
| Net Operating Income | | $20,789,841 |
| Capitalized Value | 5.50% cap rate | $377,997,115 |
| (less) Cost of Sale/Marketing | 3.25% | -$12,284,906 |
| **Net Project Value** | | **$365,712,208** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| **Land Cost** | $3,225 per lot sq. ft. | $64,500,000 |
| **Direct Costs** | | |
| Building Construction Cost | $338 per gross sq. ft. | $130,950,000 |
| Parking Construction Cost | $49,500 per space | $4,504,500 |
| Site Improvement Cost | $4 per gross sq. ft. | $1,455,000 |
| Total Direct Costs | | $136,909,500 |
| **Indirect Costs** | | |
| Tenant Improvements (office) | $100 per sq.ft. | $33,108,000 |
| Tenant Improvements (retail) | $100 per sq.ft. | $0 |
| Contingency | 7.5% of direct costs | $10,268,200 |
| Architecture and Engineering | 8.0% of direct costs | $10,952,800 |
| Project and Construction Management | 3.0% of direct costs | $4,107,300 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $4,107,300 |
| General and Administrative | 3.0% of direct costs | $4,107,300 |
| Financing | 6.0% of direct costs | $8,214,600 |
| Subtotal Indirect Costs excluding Fees | | $74,865,500 |
| Fees | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$28 avg. per gross sq. ft.*** | ***$10,974,620*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transportation and Street Improvement Fee | $16 avg. per gross sq. ft. | $6,036,740 |
| TCDP Open Space Fee | $3 avg. per gross sq. ft. | $1,033,550 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $134,890 |
| Transit Center TDR Purchase | $4 avg. per gross sq. ft. | $1,500,000 |
| Transportation Sustainability Fee | $23 avg. per gross sq. ft. | $8,974,403 |
| Child Care Fee | $2 avg. per gross sq. ft. | $688,200 |
| Public Art Fee | 1% of direct costs | $1,369,095 |
| School Impact Fee | $1 avg. per gross sq. ft. | $234,668 |
| Other Fees | $1 avg. per gross sq. ft. | $314,286 |
| Subtotal Fees | $81 avg. per gross sq. ft. | $31,260,451 |
| Total Indirect Costs | | $106,125,951 |
| **Subtotal, Direct and Indirect Costs** | | **$243,035,451** |
| **Total Costs** | | **$307,535,451** |
| **Profit (Net Project Value - Total Costs)** | | **$58,176,757** |
| **Return on Cost (Profit / Total Cost)** | | **18.9%** |
| **Stabilized Yield (NOI / Total Cost)** | | **6.8%** |

Source: Economic & Planning Systems, Inc.

Prototype 5
Eastern Neighborhoods (EN) - Small Cap
85

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.2 acres | 10,500 sq.ft. |
| Gross Building Area (excl. parking) | | 59,000 sq.ft. |
| Net Area | 89% efficiency ratio | 52,510 sq.ft. |
| Office (Full-Service) | | 44,411 sq.ft. |
| Retail (NNN) | | 0 sq.ft. |
| PDR (NNN) | | 7,209 sq.ft. |
| Parking Spaces | | 16 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $82 per net sq. ft. per year | $3,641,702 |
| Retail (NNN) | $40 per net sq. ft. per year | $0 |
| PDR (NNN) | $30 per net sq. ft. per year | $216,270 |
| Net Parking Revenue | $210 per space per month | $40,320 |
| Gross Annual Revenue | | $3,898,292 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$1,092,511 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$194,914.60 |
| (less) Commissions | 2.5% of gross annual revenue | -$97,457.30 |
| (less) Mello-Roos CFD Special Tax | $0 avg. per gross sq. ft. | $0 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$135,029 |
| Net Operating Income | | $2,378,380 |
| Capitalized Value | 5.50% cap rate | $43,243,281 |
| (less) Cost of Sale/Marketing | 3.5% | -$1,513,515 |
| **Net Project Value** | | **$41,729,767** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| **Land Cost** | $380 per lot sq. ft. | $3,990,000 |
| **Direct Costs** | | |
| Building Construction Cost | $285 per gross sq. ft. | $16,815,000 |
| Parking Construction Cost | $49,500 per space | $792,000 |
| Site Improvement Cost | $4 per gross sq. ft. | $221,300 |
| Total Direct Costs | | $17,828,300 |
| **Indirect Costs** | | |
| Tenant Improvements (office) | $80 per sq.ft. | $3,552,880 |
| Tenant Improvements (retail) | $100 per sq.ft. | $0 |
| Contingency | 7.5% of direct costs | $1,337,100 |
| Architecture and Engineering | 8.0% of direct costs | $1,426,300 |
| Project and Construction Management | 3.0% of direct costs | $534,800 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $534,800 |
| General and Administrative | 3.0% of direct costs | $534,800 |
| Financing | 5.0% of direct costs | $891,400 |
| Subtotal Indirect Costs excluding Fees | | $8,812,080 |
| Fees | | |
| *Existing Jobs Housing Linkage Fee* | *$28 avg. per gross sq. ft.* | *$1,641,589* |
| Eastern Neighborhoods Infrastructure Impact Fee | $21 avg. per gross sq. ft. | $1,218,000 |
| Central SoMa TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $21 avg. per gross sq. ft. | $1,231,340 |
| Child Care Fee | $2 avg. per gross sq. ft. | $92,315 |
| Public Art Fee | 1% of direct costs | $178,283 |
| School Impact Fee | $1 avg. per gross sq. ft. | $35,267 |
| Other Fees | $2 avg. per gross sq. ft. | $92,110 |
| Subtotal Fees | $76 avg. per gross sq. ft. | $4,488,904 |
| Total Indirect Costs | | $13,300,984 |
| Subtotal, Direct and Indirect Costs | | $31,129,284 |
| Total Costs | | $35,119,284 |
| Profit (Net Project Value - Total Costs) | | $6,610,483 |
| Return on Cost (Profit / Total Cost) | | 18.8% |
| Stabilized Yield (NOI / Total Cost) | | 6.8% |

Source: Economic & Planning Systems, Inc.

Prototype 6
Eastern Neighborhoods (EN) - Large Cap
130

| Item | Assumption | Total |
|---|---|---|
| DEVELOPMENT PROGRAM | | |
| Lot Size | 0.5 acres | 20,000 sq.ft. |
| Gross Building Area (excl. parking) | | 125,000 sq.ft. |
| Net Area | 89% efficiency ratio | 111,250 sq.ft. |
| Office (Full-Service) | | 97,900 sq.ft. |
| Retail (NNN) | | 8,900 sq.ft. |
| PDR (NNN) | | 1,780 sq.ft. |
| Parking Spaces | | 29 spaces |
| REVENUE ASSUMPTIONS | | |
| Office (Full-Service) | $87 per net sq. ft. per year | $8,517,300 |
| Retail (NNN) | $40 per net sq. ft. per year | $356,000 |
| PDR (NNN) | $30 per net sq. ft. per year | $53,400 |
| Net Parking Revenue | $210 per space per month | $73,080 |
| Gross Annual Revenue | | $8,999,780 |
| (less) Operating Expenses | 30.0% of office full-service revenue | -$2,555,190 |
| (less) Vacancy Rate | 5.0% of gross annual revenue | -$449,989 |
| (less) Commissions | 2.5% of gross annual revenue | -$224,995 |
| (less) Mello-Roos CFD Special Tax | $0 avg. per gross sq. ft. | $0 |
| (less) Prop C Early Care and Education Commercial Rents Tax | 3.5% of building lease income | -$312,435 |
| Net Operating Income | | $5,457,172 |
| Capitalized Value | 5.50% cap rate | $99,221,309 |
| (less) Cost of Sale/Marketing | 3.25% | -$3,224,693 |
| **Net Project Value** | | **$95,996,617** |
| DEVELOPMENT COST ASSUMPTIONS | | |
| **Land Cost** | $520 per lot sq. ft. | $10,400,000 |
| **Direct Costs** | | |
| Building Construction Cost | $300 per gross sq. ft. | $37,500,000 |
| Parking Construction Cost | $49,500 per space | $1,435,500 |
| Site Improvement Cost | $8 per gross sq. ft. | $937,500 |
| Total Direct Costs | | $39,873,000 |
| **Indirect Costs** | | |
| Tenant Improvements (office) | $80 per sq.ft. | $7,832,000 |
| Tenant Improvements (retail) | $100 per sq.ft. | $890,000 |
| Contingency | 7.5% of direct costs | $2,990,500 |
| Architecture and Engineering | 8.0% of direct costs | $3,189,800 |
| Project and Construction Management | 3.0% of direct costs | $1,196,200 |
| Other Expenses (Legal, Inspections) | 3.0% of direct costs | $1,196,200 |
| General and Administrative | 3.0% of direct costs | $1,196,200 |
| Financing | 6.0% of direct costs | $2,392,400 |
| Subtotal Indirect Costs excluding Fees | | $20,883,300 |
| Fees | | |
| ***Existing Jobs Housing Linkage Fee*** | ***$26 avg. per gross sq. ft.*** | ***$3,196,020*** |
| Eastern Neighborhoods Infrastructure Impact Fee | $19 avg. per gross sq. ft. | $2,352,000 |
| Central SoMa TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Area Plan Fee | $0 avg. per gross sq. ft. | $0 |
| Central SoMa Community Facilities Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transportation and Street Improvement Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Open Space Fee | $0 avg. per gross sq. ft. | $0 |
| TCDP Transit Delay Mitigation Fee | $0 avg. per gross sq. ft. | $0 |
| Transit Center TDR Purchase | $0 avg. per gross sq. ft. | $0 |
| Transportation Sustainability Fee | $19 avg. per gross sq. ft. | $2,411,483 |
| Child Care Fee | $2 avg. per gross sq. ft. | $203,500 |
| Public Art Fee | 1% of direct costs | $398,730 |
| School Impact Fee | $1 avg. per gross sq. ft. | $68,292 |
| Other Fees | $1 avg. per gross sq. ft. | $82,784 |
| Subtotal Fees | $70 avg. per gross sq. ft. | $8,712,809 |
| Total Indirect Costs | | $29,596,109 |
| **Subtotal, Direct and Indirect Costs** | | **$69,469,109** |
| **Total Costs** | | **$79,869,109** |
| **Profit (Net Project Value - Total Costs)** | | **$16,127,507** |
| **Return on Cost (Profit / Total Cost)** | | **20.2%** |
| **Stabilized Yield (NOI / Total Cost)** | | **6.8%** |

Source: Economic & Planning Systems, Inc.

# MEMORANDUM

| | |
|---|---|
| To: | Mayor London N. Breed<br>Board of Supervisors |
| From: | Joshua Switzky, Planning Department<br>Dan Adams, Mayor's Office of Housing and Community Development<br>Leigh Lutenski and Theodore Conrad, Office of Economic and Workforce Development |
| CC: | Planning Commission<br>Controller Ben Rosenfield<br>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.,[1] 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.

[1] 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[2]. 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:

| **Affordable Unit Demand Factors** | |
|---|---|
| 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

[2] 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[3]. 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

[3] 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.

# JOBS-HOUSING FIT

*Policy Analysis Report to Supervisor Gordon Mar*

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Presentation to:

LAND USE AND TRANSPORTATION COMMITTEE

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

October 21, 2019

**Budget and Legislative Analyst**

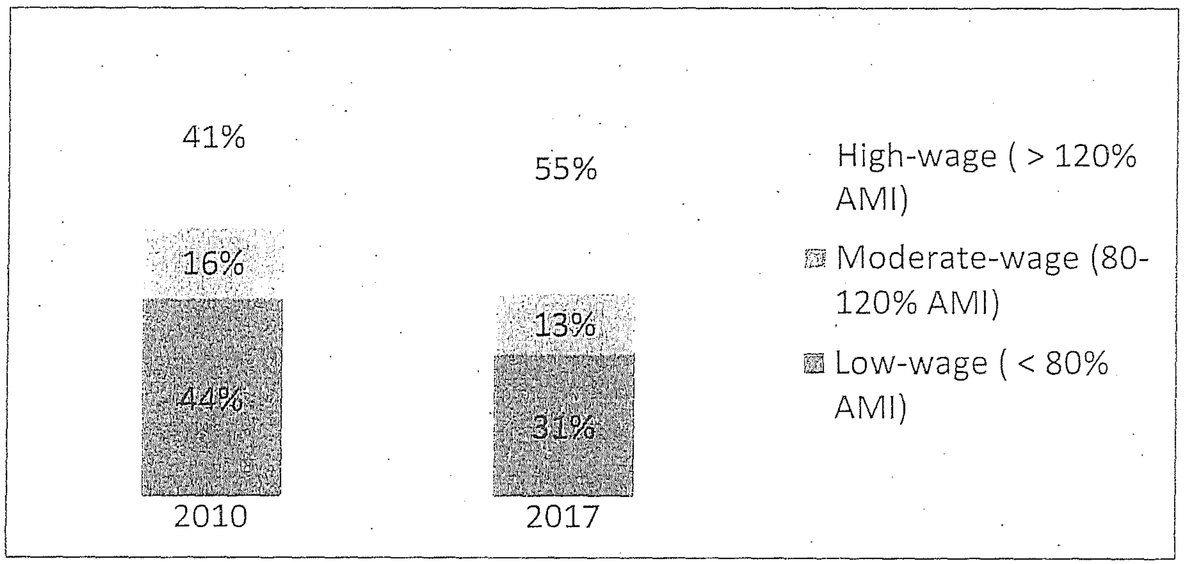
# San Francisco: 2010-2018

| | 2010 | 2018 | Change | % Change |
|---|---|---|---|---|
| Population | 805,235 | 889,305 | 84,070 | 10.4% |
| Jobs | 550,300 | 760,300 | 210,000 | 38.2% |
| Housing Units | 376,942 | 401,613 | 24,671 | 6.5% |

Source: U.S. Census American Community Survey, ABAG Plan 2040

# Change: SF Household Income, 2010-2017

| Household Income Level | 2010 | 2017 | Change | % Change |
|---|---|---|---|---|
| Low-income ( < 80% AMI) | 146,152 | 112,186 | (33,966) | (23%) |
| Moderate-income (80-120% AMI) | 52,117 | 48,128 | (3,989) | (8%) |
| High-income ( > 120% AMI) | 137,687 | 198,458 | 60,771 | 44% |
| Total households | 335,956 | 358,772 | 22,816 | 7% |
| Median income ($) | $71,304 | $96,265 | | 35% |




Sources: IPUMS USA: Version 9.0 [dataset]. Minneapolis, MN: IPUMS, 2019. Mayor's Office of Housing and Community Development, Maximum Income by Household Size, 2010 and 2017

# New jobs, by wage bracket: 2016-2018

- For San Francisco area[1]
- High: More than 120% Area Median Income (AMI)
- Moderate : 80-120% AMI
- Low: Less than 80% AMI

| Wage Bracket | 2016 | 2018 | Change |
|---|---|---|---|
| High-wage | 371,900 | 425,310 | 53,320 |
| Moderate-wage | 268,100 | 267,750 | -350 |
| Low-wage | 379,940 | 423,330 | 43,390 |
| **Total** | **1,020,030** | **1,116,390** | **96,360** |

Source: CA Employment Development Department, Occupational Employment Statistics and Wages, 2016 and 2018

[1] San Francisco area includes City and County of San Francisco and San Mateo County.

# Job Growth Outpaced Housing Production, 2010-2018

| | 2010 | 2018 | 2010-2018 |
|---|---|---|---|
| Jobs | 550,300 | 760,300 | **210,000** |
| Housing Units | 376,942 | 401,613 | **24,671** |
| Jobs/Housing Unit | 1.5 | 1.9 | 8.5 |

Sources: CA Employment Development Department, Current Employment Statistics – San Francisco County, December 2010 and December 2018. SF Planning, Housing Inventory 2018, p.34.

| Housing Production, 2010 - 2018 | | | | |
|---|---|---|---|---|
| Low (< 80% AMI) | Moderate (80-120% AMI) | Total Affordable Units | Total All New Units | % of All New Units |
| 2,782 | 3,442 | 6,224 | 24,671 | 25% |

Source: SF Planning, Housing Inventory 2014, p.32, and Housing Inventory 2018, p.34.

# Household Income Needed to Rent or Buy at SF Median Prices

| | 2010 | 2019 |
|---|---|---|
| Median Rent | $3,300 | $4,500 |
| Household Income Needed | $132,000 | $180,000 |
| % AMI for 4-Person Household | 133% | 146% |
| Median Sale | $703,000 | $1,300,000 |
| Household Income Needed | $135,720 | $243,040 |
| % AMI for 4-Person Household | 137% | 197% |

Source: Zillow, San Francisco Home Prices and Values, https://www.zillow.com/san-francisco-ca/home-values

*Current Deficit Estimates*

## Regional Housing Needs Allocation: Planning Period 2015-2022, San Francisco County

| Income Level | Housing Goals 2015-2022 | % Total Housing Goal | Actual Production as of 2018 | % Total Housing Production | % of Production Target Achieved | Production Deficit as of 2018 |
|---|---|---|---|---|---|---|
| Low-income | 10,873 | 37.7% | 4,270 | 24.9% | 39% | 6,603 |
| Moderate-income | 5,460 | 18.9% | 816 | 4.8% | 15% | 4,644 |
| High-income | 12,536 | 43.4% | 12,071 | 70.4% | 96% | 465 |
| Total | 28,869 | 100.0% | 17,157 | 100.0% | 59% | 11,712 |
| Low/mod only | | | | | | 11,247 |

Source: SF Planning, Housing Inventory 2018, p.13.

## BLA estimate, 2016-2018: 11,585 affordable housing units were needed for jobs

- Estimated San Francisco job growth, 2016 – 2018
- Applying 2018 jobs-housing ratio of 1.9

| | 2016 | 2018 | Difference |
|---|---|---|---|
| High-wage jobs | 238,016 | 272,198 | 34,182 |
| Moderate-wage jobs | 171,584 | 171,360 | (224) |
| Low-wage jobs | 243,162 | 270,931 | 27,770 |
| Total jobs | 652,762 | 714,490 | 61,728 |
| Moderate/low jobs only | 414,746 | 442,291 | 27,546 |
| Moderate/low housing unit need (@ 1.9) | | | 14,498 |
| Moderate/low housing unit actual production | | | 2,913 |
| Difference | | | 11,585 |

Source: EDD projections for San Francisco area (including San Mateo County), adjusted for San Francisco only by BLA.

# Jobs Housing Nexus Analysis: Framework for Jobs-Housing Linkage Fees

- Most recent nexus analysis: 2019
- Identifies likely number of workers per non-residential development over 25,000 gross square feet (e.g., office= 238 employees/square foot)
- Calculates affordable unit demand factors by building type
- Fees not recommended in nexus analysis; set by Board of Supervisors
- Feasibility analyses conducted for office fee only in 2019

| Use | Current Fee per Square Foot |
|---|---|
| Office | $28.57 |
| Retail | $26.66 |
| Entertainment | $26.66 |
| PDR | $22.46 |
| Small Enterprise Workspace | $22.46 |
| Hotel | $21.39 |
| Research and Development | $19.04 |

Source: SF Planning, Master Impact Fee Schedule 2019

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## Jobs-Housing Linkage Fees Collected & Expended by MOHCD

| Fiscal Year | Fee Revenue Collected | Funds Expended | Housing Units Funded | Funds Committed | Housing Units Committed |
|---|---|---|---|---|---|
| FY 2009-10 | $(8,775) | $1,012,000 | - | | |
| FY 2010-11 | 15,878 | 4,581,613 | 199 | | |
| FY 2011-12 | 567,229 | - | - | | |
| FY 2012-13 | 5,678,329 | - | - | | |
| FY 2013-14 | 11,974,893 | 9,290,000 | 71 | | |
| FY 2014-15 | 8,918,731 | 450,000 | 72 | | |
| FY 2015-16 | 30,198,421 | 3,992,165 | 185 | | |
| FY 2016-17 | 16,075,251 | 1,440,991 | n.a. | | |
| FY 2017-18 | 3,036,705 | 181,842 | n.a. | | |
| FY 2018-19 | 12,741,971 | 9,249,025 | n.a. | 63,656,874 | 543 |
| **Total** | **$89,198,633** | **$30,197,636** | **527** | **$63,656,874** | **543** |
| **Annual Average** | **$8,919,863** | **$3,019,764** | | | |
| Average Subsidy | | | $36,671 | | $117,232 |

Sources: Controller's Office, FY 2014-15 & FY 2015-16 Biennial Development Impact Fee Report, December 30, 2016; MOHCD.
Note: The Controller's Office is in the process of preparing the Development Impact Fee Report for FY 2016-17 through FY 2018-19. These figures are estimates prepared by MOHCD and are subject to change upon verification by the Controller's Office. The number of units funded by expenditures in FY 2016-17 through FY 2018-19 was not available by the date of this report..

## *Future Deficit Estimates*

## Projected Jobs by Wage Level & Housing Need, San Francisco County Only, 2016-2026

| Wage Level | 2016 Employment | 2026 Employment | Change | Housing Needed | Housing Constructed 2016-2018 | % Housing Needed | Housing Needed 2019-2026 |
|---|---|---|---|---|---|---|---|
| Low-wage | 275,868 | 307,586 | 31,718 | 18,229 | 974 | 5.3% | 17,255 |
| Moderate -wage | 190,750 | 200,018 | 9,267 | 5,326 | 1,939 | 36.4% | 3,387 |
| High-wage | 291,089 | 331,466 | 40,377 | 23,205 | 9,183 | 40.0% | 14,022 |
| Total | 757,707 | 839,069 | 81,362 | 46,760 | 12,096 | 25.9% | 34,664 |

Source: CA Employment Development Department, 2016-2026 Employment Projection, adjusted by BLA for San Francisco County only.
Note: Housing needed accounts for the housing that was completed between 2016 and 2018 according to the SF Planning Housing Inventory 2018.

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*Future Deficit Estimates*

# Housing Pipeline by Income Level, San Francisco, 2018 Q2

| Income Level | Building Permit Filed | Building Permit Approved or Issued | Under Construction | Entitled, No Permits Filed | Total Entitled | % Entitled |
|---|---|---|---|---|---|---|
| Low income | 32 | 557 | 887 | 150 | 1,626 | 7.5% |
| Moderate income | 179 | 118 | 265 | 15 | 577 | 2.7% |
| High income | 4,524 | 5,768 | 5,414 | 2,921 | 18,627 | 86.1% |
| TBD | 120 | 115 | 512 | 56 | 803 | 3.7% |
| Total | 4,855 | 6,558 | 7,078 | 3,142 | 21,633 | 100% |

Source: SF Planning, Housing Development Pipeline Report 2018 Q2

*Future Deficit Estimates*

## Difference: Pipeline Housing Units & Projected Housing Needed by 2026, San Francisco

| Income Level | Housing Needed | Total Entitled | Difference |
|---|---|---|---|
| Low income | 17,255 | 1,626 | 15,629 |
| Moderate income | 3,387 | 577 | 2,810 |
| High income | 14,022 | 18,627 | -4,605 |
| Total | 34,664 | 20,830 | 13,834 |

- Planning Department Pipeline data from 2019 shows that progress in reducing the housing gap between. Adding reported entitlements as of Q2 2019, the gap may be approximately 9,327, compared to EDD 2016 projections.

# Policy Options

1. Request the Planning Department to prepare annual projections of new jobs for San Francisco, by income segment, and new affordable housing completed and in the pipeline to identify any gap between employment projections and new housing.

2. Request that MOHCD track new housing to be funded by Jobs-Housing Linkage fee revenue by income segment and report to the Board of Supervisors annually on new affordable housing completed and in the pipeline by income segment.

# Questions and comments

## JOBS-HOUSING FIT

*Policy Analysis Report to Supervisor Gordon Mar*

Presentation to:

LAND USE AND TRANSPORTATION COMMITTEE

BOARD OF SUPERVISORS

CITY AND COUNTY OF SAN FRANCISCO

October 21, 2019

Project Staff : Michelle Lau, Jennifer Tell, Fred Brousseau

# Increasing the Jobs-Housing Linkage Fee: Economic Impact Report

CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

Office of Economic Analysis

Item #190548

10.21.2019

- The proposed legislation would raise the City's Jobs-Housing Linkage Fee (JHLF) for newly-constructed office and laboratory space.
- The City assesses the JHLF on new non-residential development; the fee revenue is dedicated to affordable housing programs.
- A nexus study supporting the fee, which first prepared in 1997, was updated in May, 2019. The maximum fee supported by the nexus rose as a result of the updated study, and the proposed legislation has been introduced as a consequence.
- The current version of the proposed legislation would raise the fee for new offices from \$28.57 to \$69.60 per gross square foot. For new laboratory space, the fee would rise from \$19.04 to \$46.43.
- The legislation has the potential to raise substantial new revenues for affordable housing, while also increasing development costs in a way that could threaten future employment growth. Consequently, the Office of Economic Analysis (OEA) has prepared this economic impact report.

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# The Nexus Study



- Two existing studies have examined the potential impact of the proposed legislation: a nexus study prepared by Keyser Marston Associates,[1] and a feasibility study prepared by Economic and Planning Systems Inc. (EPS).[2]
- The JHLF is a development impact fee which, under California law, must be rationally-related to a negative consequence of new development. A nexus study is required in order to demonstrate that the fee charged to a project does not exceed the magnitude of the problem caused by the development.
- While most impact fees seek to fund expansions to public infrastructure, in order to maintain an existing level-of-service of that infrastructure, the JHLF nexus study is based on a perceived problem in the housing market that is believed to be created by employment growth in the city.
- The study estimated the number of low- and moderate-income worker households working in new commercial space of various types. A per-square-foot charge, for each type of non-commercial development, is obtained after multiplying the household numbers by the City's average cost of producing a permanently-affordable housing unit.

# The Nexus Study (Continued)



- Thus, the nexus study aims to estimate the fee that would be necessary to fully mitigate the impact of different types of commercial development on affordable housing, at a "level-of-service" at which each new low/moderate income worker household would occupy a permanently-affordable housing unit within San Francisco.
- The nexus study is not an economic impact report. It does not address any other ways in which non-residential development affects the city's economy, such as its effect on the employment or income of city residents.

# The Feasibility Study



- The nexus study is also not concerned with the question of whether an increase to the JHLF will reduce the fiscal feasibility of new development, or the broader economic implications of that risk.
- To address this issue, the Office of Economic and Workforce Development published a feasibility study that assessed the impact of a $10 per square-foot increase in the JHLF, which was the level of increase proposed in the initial version of this legislation.
- After preparing sample pro-forma models for six different office projects in areas where new development is planned, the feasibility study found that office development is currently infeasible, even without the proposed fee increase.
- It concluded, however, that "once market conditions improve sufficiently to support the feasibility of office development, the analysis suggests that some modest level of fee increase may be viable."[3]
- The "market conditions" referred to involve a 25% decrease in the land costs a developer would face, and a 13% increase in the rents tenants would be willing to pay. The study does not discuss whether or when such a change in market conditions might occur.

- It is unclear, from the feasibility study, when and if market conditions can change to make the current $40/sf proposed fee increase for office development viable.
- Because the issue of how the fee increases will affect future development and employment growth is of central importance to its economic impact, a different analytical approach is necessary for this report.
- The OEA worked with the Blue Sky Consulting Group to develop a model that would estimate how sensitive office development in the city is to changes in development costs, such as a fee increase.
- The model, which is incorporates information on most parcels in the city[4], and office permitting activity since 2001, is similar to ones built by the OEA and Blue Sky to study the impact of fee increases on housing production in the city[5]. Full details on the model are provided in the Appendix.
- Using the model, we can estimate how office development, and employment, across the city may change as a result of the fee increase. It can also estimate how JHLF revenue may change.

# Economic Impact Factors



- The proposed legislation is expected to affect the local economy in two major ways:

  1. The proposed fee increase will raise the development cost of office and laboratory space and as a result some projects may become financially infeasible. As a result of that, the city would have less development, less space for workers, and less overall employment on an ongoing basis. To the extent development is curtailed because of the higher fee, one-time construction spending on office and laboratory space would decline as well.

  2. The fee increase should increase funding for affordable housing in the city. Depending on how this funding is used, it could increase construction and rehabilitation spending, and/or increase consumer spending, to the extent the revenue is used to make existing housing more affordable for low- and moderate-income households, and freeing up their income to be spent elsewhere in the local economy.

- The net economic impact will depend upon the relative size of these two impact factors.

# Estimating the Impact on Office Development

- The model described earlier was used to estimate the sensitivity of office development to changes in the JHLF. Because there is much less laboratory space in the city, the proposed legislation's impact on laboratories is not considered in this report.
- The model found a statistically-significant negative relationship between buliding construction costs[6], and the likelihood of a building permit for new office construction being issues for a given parcel in a given year.
- Based on estimates of San Francisco office development costs published by Turner & Townsend of $625/sf, and the EPS feasibility study average of $717/sf, we calculated the proposed fee increase as equivalent to a 6% increase in non-land development costs[7].
- The model projects that a 6% increase in development costs would lead to a 0.2% decline in overall office space in the city, equivalent to a reduction of 125,000 – 140,000 square feet per year, on average.
- Because office development is highly sensitive to the business cycle, the impact could be higher or lower in any particular year.

# Office Employment and Construction Impacts



- To obtain an estimate of office employment lost due to office construction that is made infeasible by the fee increase, this study uses the employment density figure that is used in the updated nexus study, which is 238 square feet of office space per employee.
- An average annual loss of 125,000 to 140,000 square feet of office space would lead to a loss of 520 to 585 office jobs, at that employment density.
- To estimate the impact of the loss of feasibility on office construction, we used the same construction spending range of \$625 to \$717 per gross square foot, from the Turner & Townsend and EPS sources. The annual decline in office construction spending is estimated at \$61 million - \$87 million per year.

# Impact on JHLF Revenue

- Despite the decline in office development, the increase in the fee is projected to lead to a $8 million - $9 million increase in fee revenue, as shown in the table below. The model's projects, as a baseline, an average of 430,000 sf of new office per year, under condition. With the higher fee, that would fall to 290,000 – 305,000.

| Inputs | Baseline | Under Proposed Legislation | Difference |
|---|---|---|---|
| Annual New Office Development (sf) | 430,000 | 290,000-305,000 | 125,000 – 140,000 |
| Applicable JHLF | $28.57 | $69.60 | $41.23 |
| JHLF Revenue ($M) | $12.3 | $20.2 - $21.2 | $8 - $9 |

- The legislation directs that 10% of the fee's revenues are to be devoted to the acquisition and rehabilitation, and another 30% to the development of permanent supportive housing. This analysis assumes the remaining 60% is used for the construction of permanently-affordable housing.

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# REMI Model Simulation: High and Low Scenarios



- The OEA uses the REMI model to estimate the net economic impact of legislation, based on the economic impact factors already discussed.
- In a low-impact scenario, based on a loss of 125,000 sf of office development and most spending on construction, the estimate is based on:
  - a loss of 520 office jobs, associated with the low-end estimate of lost office space, split proportionally between office-using industries[9].
  - a loss of $61 million in office construction spending.
  - a gain of $9 million in fee revenue, assumed to be spent on construction.
- In a high-impact scenario, based on a loss of 140,000 sf of office development and more spending on housing subsidy, the inputs are:
  - a loss of 585 office jobs, associated with the high-end office loss estimate, split among office-using industries as above.
  - a loss of $82 million in office construction spending.
  - a gain of $8 million in fee revenue, assumed to be spent on construction.

- We project the proposed legislation will result in a net job loss of between 1,275 and 1,500 jobs, representing between 0.1% and 0.2% of all jobs in the city, on average over the next 20 years.
- The impact on the city's GDP is likewise projected to be negative, to the tune of $280-$330 million, in today's dollars.
- About 60% of the job losses will be concentrated in the office-using industries that are directly impacted by the fee. Another 25% of the losses are projected to occur in construction, with the remainder spread across other industries. No sector is projected to add jobs as a result of the proposed legislation.
- Housing prices are projected to decline, by 0.1% - 0.2%, but this is due to a proportional loss of personal income and population, not because housing would become broadly more affordable.
- The additional participants in the the expanded affordable housing programs would clearly benefit, and other low- and moderate-income residents may also benefit if the growth in affordable housing lessens competition at the low end of the private housing market.

# Appendix: Office Development Model Methodology

The OEA's consultants, Blue Sky Consulting Group, analyzed the data set described on pages 14-15 to determine which factors are most useful for estimating the probability that a San Francisco parcel will be developed into additional office space in a given year. To do this, they used a common statistical technique called logistic regression analysis. A logistic regression is a special type of regression used to understand the relationship between a dependent binary (yes or no) variable, and one or more independent or explanatory variables. Here, the dependent variable is set equal to a one if the parcel added office space in a specific year, and otherwise set equal to zero.

To identify those explanatory variables that are most useful for understanding when and where office space is added, they developed a base model that included those variables most likely to be closely associated with such development based on economic theory. Those variables include office rents, construction costs, zoning restrictions, current land use, the size of the potential development given height and density restrictions, and the relative increase for the potential development given the existing development on the site. With this as the base model, they tested the impact of adding other explanatory variables such as various stock market indexes, interest rates, total employment and the unemployment rate for San Francisco, etc. These tests were evaluated based on their overall impact to the model as well as their individual predictive power. Many of these added economic variables were highly correlated with office rents and construction costs while others did not have a statistically significant relationship with office development. These variables were therefore excluded from the final model. Throughout these tests, however, it was clear that office rents and construction costs were consistently useful predictors of office development, and the nature of this relationship was quite stable regardless of the inclusion or exclusion of these additional explanatory variables.

After completing these tests, the final models consisted of the following explanatory variables. Their impact on the likelihood of office development happening (positive or negative) is shown in parentheses.

1. a dummy variable for whether or not the parcel had 1 or more housing units (negative),
2. the average asking rent for San Francisco from REIS (positive),
3. the SF building cost index from Engineering News Record (negative)
4. the potential building envelope, given height and bulk controls (positive)
5. the ratio of the potential building envelope to the existing square footage (positive), and
6. ten dummy variables for the type of zoning for the parcel. (positive and negative)

The data included in the analysis consisted of the following:

1. Permit Data—Blue Sky reviewed the City's permit data to identify projects that added office space. The data set includes all new construction for office space as well as alterations that were identified as creating new office space via expansion or conversion. All permits for new construction of office space were included. To determine which alteration permits to include, we reviewed the description for all projects that either had the term "convert" or "erect" in the description or for which the costs were $250K or higher. Based on a review of the permit's description, we excluded any permits that were for tenant improvements of existing office space or other work that did not result in new office space being produced. Finally, we limited the office developments used in the analysis to only include permits issued between 2001 and 2018, the years for which parcel data are available. This resulted in 136 office development projects, or 85 new construction projects and 51 alteration/conversion projects.

2. Parcel-Specific Data—Data for every parcel in San Francisco were collected for each year from 2001 through 2018. This information includes attributes which did not change over time such as the parcel's land area and neighborhood, as well as characteristics that may have changed, such as the parcel's zoning requirements or maximum allowable building height. The basis for our list of parcels was the current "City Lots" database available from the San Francisco Planning Department. We then integrated annual files for 2001 through 2018 for zoning, height and bulk districts, planning districts, special use districts, and land use. In addition, because parcel identifiers may change over time as parcels are combined or divided, the Planning Department also provided a file that recorded parcel number changes over time. Finally, parcels that did not have any zoning designation were reviewed and those that were determined to be located in water were removed.

3. Demographic Data—Demographic data were also integrated for regions within the City. Specifically, data for education level and per capita income were collected by census tract from the Decennial Census for 2000 and 2010 and supplemented with annual data from the American Community Survey for 2009-2018. Where annual data were not available, values were interpolated. GIS software was then used to map parcels to census tracts so that every parcel could be assigned the appropriate annual estimates of education level and per capita income.

4. Annual Economic Data—Various measures of construction costs and office rents were also collected and integrated to account for changes that would have a direct impact on the San Francisco market for office space over time, as well as changes in general economic conditions that may influence the amount of development. These economic indicators included data specific to the City, such as total employment and the unemployment rate in San Francisco, as well as data for the greater San Francisco area, including the total employment and unemployment rate and the number and value of residential building permits issued for the San Francisco Metropolitan Statistical Area (MSA). Also integrated were numerous measures of general economic activity and consumer sentiment, including various stock market indices such as the Dow Jones Total Stock Market Index (DJ-TSM), S&P 500, and the NASDAQ; data on venture-backed companies in Northern California from the Sand Hill Index of Venture Capital; interest rates; and measures of consumer sentiment as reported by both the Conference Board and the University of Michigan. Finally, data for various price and cost indices specific to San Francisco were integrated, including an annual index of asking and effective office rents from Real Estate Solutions by Moody's Analytics (REIS) and a Building Cost Index and a Construction Cost Index prepared specifically for San Francisco by the Engineering News Record (ENR).

These data sources were combined to form a single data set, with one record for each of the City's current "base lot" parcels for each year from 2001 to 2018.

[1] Keyser Marston Associates, "Jobs Housing Nexus Analysis: San Francisco California", Prepared for the City and County of San Francisco, May 2019.

[2] Economic & Planning Systems, "Final Memorandum: Jobs-Housing Linkage Fee Update Development Feasibility Assessment", Prepared for the City and County of San Francisco, June 2019.

[3] Economic & Planning Systems, page 3.

[4] Excluding public parcels, and parcels subject to a development agreement.

[5] San Francisco Controller's Office: "Increasing Inclusionary Housing Requirements: Economic Impact Report", February, 2016; "Inclusionary Housing Working Group: Preliminary Report", September 2016.

[6] As measured by the Building Cost Index published for San Francisco by Engineering News Record.

[7] Turner & Townsend, "International Construction Market Survey 2019".

[8] Conversions to office from other uses has contributed to the growth in the city's office space in the past, but these conversions are not considered in this model.

[9] Office-using industries include Information, Financial Services, Real Estate, Business & Professional Services, and Administrative and Support Services.

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# Staff Contacts

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The assistance of the Blue Sky Consulting Group is gratefully acknowledged. All errors and omissions are solely the responsibility of the Office of Economic Analysis.

190548

om: Aaron Goodman <amgodman@yahoo.com>
Sent: Monday, October 21, 2019 10:03 AM
To: Major, Erica (BOS); Peskin, Aaron (BOS); Haney, Matt (BOS); Safai, Ahsha (BOS); Board of Supervisors, (BOS)
Subject: SFBOS Land-Use - Monday October 21st - Comment (A.GOODMAN) D11

This message is from outside the City email system. Do not open links or attachments from untrusted sources.

**ATTN: SF BOS (Land-Use) Committee (cc: SFBOS)**

As I am unable to attend the mid-day meeting today, please accept this email as my public comment on the issues below. Will keep them brief as I can but you have a lot on the agenda today needing vetting.

**19054 - Jobs Housing Linkage**
**19089 - Jobs Housing Fit**

I support both items above, in determining the best strategy forward on the creation of affordable RENTAL housing for working communities and the need to determine how to build larger housing developments for 00% affordable units.
I would ask that you also consider in the two items the relation of mass transit and equity in relation to funding areas and districts since many areas seeing the largest developments in SF are also devoid of any serious transit projects that are shovel ready and supportive prior to the construction of mass housing developments.

**190971 - India Basin (Street Vacated)**
I would like to submit comments on the EQUITY concerns on lacking transit proposals to improve the T-Line and the linkage between numerous developments in D10. The Pier 70 / India Basin / Alice Griffith and Hunters View, BVHP, Candlestick areas all the way around to Sunnydale from Potrero require a more robust solution on public transit. Please look into this issue with the SFMTA and how they propose to amp up the mass-transit in D10 to equitably address mass transit needs and upcoming service issues during roadway construction at Ceasar Chavez and Alemany on 101/280 already at serious congestion levels that impacts Bayshore, and the T-third. (I am in support of the India Basin project, but would like to see a more robust water-taxi, and trackless train system that loops around the BVHP and back up Geneva Harney to balboa park station to bring quickly new mass-transit solutions to these neighborhoods being developed.)

**190972 - Electrification of Municipal Facilities**
**190974 - Energy Performance in New Buildings**
I am in support of this proposal and would want to see more efforts on urban infrastructure and build out in addition to local property tax incentives to switch to solar. Costs are causing residential installers to balk at installations, especially smaller installs. Therefore it is critical to ensure smaller home-owners and businesses can switch to solar more readily.. On the energy efficieny issues LEED does not always take into account the issues of obsolescence and sound existing construction that should promote preservation and adaptive re-use. So key is to include measures that document the demolition of existing systems and buildings and their

replacement with new energy efficient systems. If we toss a recently installed roof for a new roof and solar, the carbon impacts must be addressed in the changes.

**191016 - Educator Housing**
Key is to determine the effects prior and loss of educator housing since 2001 (Purchase of Stonestown and portions of Parkmerced) that served as educator housing. SFSU-CSU was asked to consider staff/teacher housing at the UPS blocks. The SOTA switch downtown should be considered whether the site is for 100% future housing or an option to rebuild the school at its existing site and plan for the school SOTA to remain and the old educator building converted to shared housing co-op building downtown due to already overcongested streets in the Van Ness Market area. Which will be more dangerous for kids and teens if shifted in that area from the existing SOTA site. There is also the concerns about CCSF and teacher housing on Balboa Reservoir, and CCSF's future plans. All these sites MUST have new and adequate new transit serving the areas so please legislate to support more transit improvements in these areas.

**191018 - 770 Woolsley**
I am supportive of the landmarking in the hope to create a more adventurous solution with green-houses and landscaped courtyards for the future housing on this site. Their is also the need for addressing overcrowded bus services on the 44 and 8/9 lines along with the 54 which serve the D10/D11 neighborhoods. Please look into the transit issues and equity for these proposals.

**191013- Mobility Permits**
**191033 - Office of Emerging Technology**

My concern is the lacking ADA compliance on many of these new technologies that service the seniors and disabled communities. Portland and Detroit have ADA bikes for bike-share, and currently with all the mobility push, we have yet to see it adequately addressed in the pods and systems being attached to bike racks and public infrastructure. These systems are parasitical and do not adequately address EQUITY in low cost options alone. Therefore a percentage should be done financially that re-invests in public mass-transit systems connections, loops and links in existing infrastructure.

**Thank you all for addressing these concerns in your discussion later today.**

Sincerely

Aaron Goodman D11
amgodman@yahoo.com

SAN FRANCISCO CHAMBER OF COMMERCE
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October 24th, 2019

Small Business Commission
San Francisco City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA

RE: Jobs Housing Linkage Fee, File No: 190548

Dear Commissioners;

Thank you for the opportunity to provide input on the proposed increase to the Jobs Housing Linkage Fee (File: 190548).

The San Francisco Chamber of Commerce, representing over a thousand local businesses, is writing to encourage you to support amendments to the ordinance to help support small businesses who rely on affordable office space to stay in the City.

We appreciate Supervisor Haney's leadership in strengthening the linkage between jobs and housing and initiating an overdue examination of the Jobs Housing Linkage Fee. We absolutely agree that San Francisco needs more affordable housing to support our growing economy.

The Jobs Housing Linkage Fee is an integral part of our City's planning process. It has significant impacts on our local economy, the supply of commercial and laboratory space, and our ability to fund affordable housing.

The City's feasibility study has warned that increasing the fee too dramatically and suddenly would postpone and stop construction of commercial space in San Francisco. A joint memorandum from the City's Planning Department, Office of Housing and Community Development, and Office of Economic and Workforce Development concludes that limiting development 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." This will inevitably push out smaller, home-grown businesses that rely on affordable office space.

We deeply appreciate the Supervisor's willingness to work with businesses and stakeholders in creating a Jobs Housing Linkage Fee that will responsibly balance our jobs-housing ratio. We are optimistic that we can reach a positive, consensus solution that is supported by the business community, affordable housing advocates, and City Hall.

We believe the following amendments would strengthen the ordinance and support small businesses:

**A Reduced Jobs Housing Linkage Fee for Laboratory Space**
San Francisco is home to over 100 life science and biotech companies, over 80% are small businesses with 50 employees or less. These companies are research-focused businesses, mostly supported by federal grants. They face a deep shortage of usable Laboratory space in the City, which increases their real estate costs and hurts their ability to sustain a business. In addition, the Jobs Housing Economic Nexus calculates that Laboratory space only requires 55% of the affordable housing burden that office space requires.

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We encourage the ordinance to reduce the Jobs Housing Linkage Fee for Laboratory space to a ratio of 55% of the Jobs Housing Linkage Fee for office space, approximately $31-$38. This recognizes San Francisco's deep need for affordable housing while also supporting the future development of Laboratory space in the City.

We understand that Supervisor Haney's office may be making amendments in this direction, and we deeply appreciate his thoughtfulness and support.

**A Separate Tier for Development that Supports Small and Mid-sized Businesses**
Many small, local, professional service businesses rely on affordable office space to stay in the City. Smaller office space developments naturally support small and mid-sized businesses. We should incentivize the development of developments that will provide office space to these small businesses and encourage a diversity of industries in San Francisco.

The Jobs Housing Economic Nexus and the City's feasibility study on the issue both ignore these small businesses and developments in their calculations. The Economic Nexus does not calculate for any building less than 100,000 square feet. The City's feasibility study only assumes a 12% rental increase growth - a rental increase that unrealistic for most small businesses.

We encourage the ordinance to create a separate, reduced fee tier for office space developments with less than 75,000 square feet. This amendment recognizes the importance of small business and the need to keep them in San Francisco. We believe that San Francisco's fee for office space developments with less than 75,000 square feet should start at $37.71 and gradually increase over a period of two years to $45.93.

**Regular Economic Feasibility Analysis and Adjustment**
Many of the City's major economic policies, such as the inclusionary housing requirement, require the City Controller and Board of Supervisors to review economic feasibility every three years and give the Board of Supervisors the opportunity to adjust the policy. This allows the City to adapt and reflect changes in the local economy.

We recommend including the same regular feasibility analysis and adjustment language for the Jobs Housing Linkage Fee ordinance.

We believe including these three amendments in the ordinance will help many stakeholders support a responsible and progressive policy. Thank you for your consideration.

Sincerely,

Rodney Fong
President & CEO
San Francisco Chamber of Commerce

CC: Mayor London Breed, Supervisor Matt Haney, Clerk of the Board of Supervisors

SAN FRANCISCO CHAMBER of COMMERCE
235 Montgomery St., Ste. 760, San Francisco, CA 94104
tel: 415.352.4520 • fax: 415.392.0485
sfchamber.com • twitter: @sf_chamber

October 29th, 2019

Board of Supervisors
San Francisco City Hall
1 Dr. Carlton B. Goodlett Place
San Francisco, CA

RE: Jobs Housing Linkage Fee, File No: 190548

Dear Supervisors,

The San Francisco Chamber of Commerce, representing over a thousand local businesses, is writing to communicate our support for the Jobs Housing Linkage Fee ordinance (File No: 190548) as it was amended at the Board of Supervisors meeting on October 29th, 2019.

We commend Supervisor Haney for his leadership in this overdue examination of the Jobs Housing Linkage Fee. We absolutely agree that San Francisco needs more affordable housing to support our growing economy, and this ordinance helps bring us to a more balanced jobs-housing ratio.

The amendments that Supervisor Haney introduced on reducing the fee for Laboratory space, creating a tier for Small Capital Projects under 50,000 square feet of office space, phasing in the fee over time, and creating a regular evaluation of the fee every five years are thoughtful and essential.

They will help ensure that the Jobs Housing Linkage Fee supports small businesses in the City, recognizes a unique life sciences industry, and adjusts with changing local economic conditions.

We appreciate the Board of Supervisors for crafting a responsible, consensus, and progressive policy. Thank you for your work and consideration.

Sincerely,

Rodney Fong
President & CEO
San Francisco Chamber of Commerce

CC: Mayor London Breed, Clerk of the Board of Supervisors

BOARD of SUPERVISORS

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 554-5184
Fax No. 554-5163
TDD/TTY No. 554-5227

# MEMORANDUM

TO: John Rahaim, Director, Planning Department
Tom Hui, Director, Department of Building Inspection
Naomi Kelly, City Administrator, Office of the City Administrator
Ben Rosenfield, City Controller, Office of the Controller
Dan Adams, Acting Director, Mayor's Office of Housing and Community Development

FROM: Erica Major, Assistant Clerk, Land Use and Transportation Committee

DATE: September 18, 2019

SUBJECT: SUBSTITUTE LEGISLATION INTRODUCED

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The Board of Supervisors' Land Use and Transportation Committee has received the following proposed substitute legislation, introduced by Supervisor Haney on September 10, 2019:

**File No. 190548-2**

**Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.**

If you have comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102 or by email at: erica.major@sfgov.org.

c: Scott Sanchez, Planning Department
Corey Teague, Planning Department
Lisa Gibson, Planning Department
Devyani Jain, Planning Department
AnMarie Rodgers, Planning Department
Dan Sider, Planning Department
Aaron Starr, Planning Department
Joy Navarrete, Planning Department
Laura Lynch, Planning Department
William Strawn, Department of Building Inspection
Carolyn Jayin, Department of Building Inspection
Lynn Khaw, Office of the Assessor-Recorder
Lihmeei Leu, Office of the Assessor-Recorder
Todd Rydstrom, Office of the Controller
Peg Stevenson, Office of the Controller
Eugene Flannery, Mayor's Office of Housing and Community Development
Amy Chan, Mayor's Office of Housing and Community Development

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TDD/TTY No. 554-5227

May 17, 2019

Planning Commission
Attn: Jonas Ionin
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Commissioners:

On May 14, 2019, Supervisor Haney introduced the following legislation:

**File No. 190548**

**Ordinance amending the Planning Code to update the Jobs Housing Linkage Fee; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.**

The proposed ordinance is being transmitted pursuant to Planning Code, Section 302(b), for public hearing and recommendation. The ordinance is pending before the Land Use and Transportation Committee and will be scheduled for hearing upon receipt of your response.

Angela Calvillo, Clerk of the Board

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

c: John Rahaim, Director
Scott Sanchez, Acting Deputy Zoning Administrator
Corey Teague, Zoning Administrator
Lisa Gibson, Environmental Review Officer
Devyani Jain, Deputy Environmental Review Officer
AnMarie Rodgers, Director of Citywide Planning
Dan Sider, Director of Executive Programs
Aaron Starr, Manager of Legislative Affairs
Joy Navarrete, Environmental Planning
Laura Lynch, Environmental Planning

BOARD of SUPERVISORS

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San Francisco 94102-4689
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Fax No. 554-5163
TDD/TTY No. 554-5227

May 17, 2019

File No. 190548

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Ms. Gibson:

On May 14, 2019, Supervisor Haney introduced the following proposed legislation:

**File No. 190548**

**Ordinance amending the Planning Code to update the Jobs Housing Linkage Fee; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.**

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

Attachment

c: Joy Navarrete, Environmental Planning
Laura Lynch, Environmental Planning

BOARD of SUPERVISORS

City Hall
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September 17, 2019

Planning Commission
Attn: Jonas Ionin
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Commissioners:

On September 10, 2019, Supervisor Haney submitted the following proposed substitute legislation:

**File No. 190548-2**

**Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.**

The proposed ordinances are being transmitted pursuant to Planning Code, Section 302(b), for public hearing and recommendation. The ordinances are pending before the Land Use and Transportation Committee and will be scheduled for hearing upon receipt of your response.

Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

c: John Rahaim, Director
Scott Sanchez, Acting Deputy Zoning Administrator
Corey Teague, Zoning Administrator
Lisa Gibson, Environmental Review Officer
Devyani Jain, Deputy Environmental Review Officer
AnMarie Rodgers, Director of Citywide Planning
Dan Sider, Director of Executive Programs
Aaron Starr, Manager of Legislative Affairs
Joy Navarrete, Environmental Planning
Don Lewis, Environmental Planning

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September 17, 2019

**File No. 190548-2**

Lisa Gibson
Environmental Review Officer
Planning Department
1650 Mission Street, Ste. 400
San Francisco, CA 94103

Dear Ms. Gibson:

On September 10, 2019, Supervisor Haney submitted the proposed substitute legislation:

**File No. 190548-2**

**Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.**

This legislation is being transmitted to you for environmental review.

Angela Calvillo, Clerk of the Board

Erica Major

By: Erica Major, Assistant Clerk
Land Use and Transportation Committee

Attachment

c: Joy Navarrete, Environmental Planning
Don Lewis, Environmental Planning

BOARD of SUPERVISORS

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# NOTICE OF PUBLIC HEARING
# BOARD OF SUPERVISORS OF THE CITY AND COUNTY OF SAN FRANCISCO
## LAND USE AND TRANSPORTATION COMMITTEE

NOTICE IS HEREBY GIVEN THAT the Land Use and Transportation Committee will hold a public hearing to consider the following proposal and said public hearing will be held as follows, at which time all interested parties may attend and be heard:

**Date:** **Monday, October 21, 2019**

**Time:** **1:30 p.m.**

**Location:** **Legislative Chamber, Room 250, located at City Hall**
**1 Dr. Carlton B. Goodlett Place, San Francisco, CA**

**Subjects:** **File No. 190548.** Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing Program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

If this legislation passes, project sponsors will be given an additional option to fulfill requirements imposed as a condition of approval prior to the issuance of a building or site permit for applicable development projects under Planning Code, Sections 413.1 et seq. The proposed legislation would add the option to contribute the land value at least equivalent to the in-lieu fee, according to the formulas pursuant to Planning Code, Section 413.7. The amount of the fee which may be paid by the sponsor of a development project shall be determined by the type of space proposed: office use would increase from $19.96 to $69.60 per gross square foot, and laboratory use from $13.30 to $46.43 per square foot.

In accordance with Administrative Code, Section 67.7-1, persons who are unable to attend the hearing on these matters may submit written comments to the City prior to the time the hearing begins. These comments will be made part of the official public record in these matters, and shall be brought to the attention of the members of the Committee. Written comments should be addressed to Angela Calvillo, Clerk of the Board, City Hall, 1 Dr. Carlton B. Goodlett Place, Room 244, San Francisco, CA 94102. Information relating to these matters are available in the Office of the Clerk of the Board. Agenda information relating to these matters will be available for public review on Friday, October 18, 2019.

Angela Calvillo, Clerk of the Board

DATED/POSTED: October 11, 2019
PUBLISHED: October 11 and 16, 2019

Print Form

# Introduction Form

By a Member of the Board of Supervisors or Mayor

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

2019 SEP 10 PM 2:20

BY

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

☐ 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).

☐ 2. Request for next printed agenda Without Reference to Committee.

☐ 3. Request for hearing on a subject matter at Committee.

☐ 4. Request for letter beginning :"Supervisor [ ] inquiries"

☐ 5. City Attorney Request.

☐ 6. Call File No. [ ] from Committee.

☐ 7. Budget Analyst request (attached written motion).

☑ 8. Substitute Legislation File No. 190548

☐ 9. Reactivate File No. [ ]

☐ 10. Topic submitted for Mayoral Appearance before the BOS on [ ]

..ease check the appropriate boxes. The proposed legislation should be forwarded to the following:

☐ Small Business Commission ☐ Youth Commission ☐ Ethics Commission

☒ Planning Commission ☐ Building Inspection Commission

**Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.**

Sponsor(s):

Supervisors Haney; Fewer, Ronen, Mar, Peskin, Walton

Subject:

[Planning Code - Affordable Housing]

The text is listed:

Ordinance amending the Planning Code to modify the Jobs Housing Linkage Fee by allowing indexing of the fee, adding options for complying with the fee, requiring payment of the fee no later than at the time of first certificate of occupancy, dedicating funds for permanent supportive housing and the preservation and acquisition of affordable housing, and to remove the monetary limit for the Small Sites Funds under the Inclusionary Housing program; affirming the Planning Department's determination under the California Environmental Quality Act; making findings of consistency with the General Plan, and the eight priority policies of Planning Code, Section 101.1; and making findings of public necessity, convenience, and welfare pursuant to Planning Code, Section 302.

Signature of Sponsoring Supervisor: [signature]

For Clerk's Use Only

Print Form

# Introduction Form

By a Member of the Board of Supervisors or Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- [x] 1. For reference to Committee. (An Ordinance, Resolution, Motion or Charter Amendment).
- [ ] 2. Request for next printed agenda Without Reference to Committee.
- [ ] 3. Request for hearing on a subject matter at Committee.
- [ ] 4. Request for letter beginning :"Supervisor ______ inquiries"
- [ ] 5. City Attorney Request.
- [ ] 6. Call File No. ______ from Committee.
- [ ] 7. Budget Analyst request (attached written motion).
- [ ] 8. Substitute Legislation File No. ______
- [ ] 9. Reactivate File No. ______
- [ ] 10. Topic submitted for Mayoral Appearance before the BOS on ______

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- [ ] Small Business Commission
- [ ] Youth Commission
- [ ] Ethics Commission
- [x] Planning Commission
- [ ] Building Inspection Commission

**Note: For the Imperative Agenda (a resolution not on the printed agenda), use the Imperative Form.**

Sponsor(s):

Supervisors Haney,Fewer, Ronen, Mar, Peskin, and Walton

Subject:

Jobs Housing Linkage Fee

The text is listed:

Ordinance amending the Planning Code to update the Jobs Housing Linkage Fee; affirming the Planning Department's determination under CEQA; making findings of consistency with the General Plan and the eight priority policies of Planning Code, Section 101.1; and making finding of public necessity, convenience and welfare pursuant to Planning Code, Section 302.

Signature of Sponsoring Supervisor:

For Clerk's Use Only