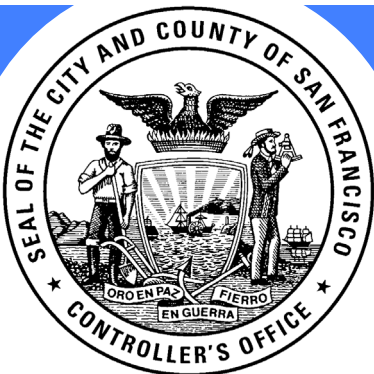


Inclusionary Housing Technical Advisory Committee: Preliminary Controller Recommendations



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller
Office of Economic Analysis

March 10, 2023

Feasibility Findings

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- Based on our consultant's research, we find current inclusionary housing requirements to be infeasible.
- At 2022 on-site requirements, every prototype studied was not financially feasible.
- Under the in-lieu fee option, at current fee percentage requirements, again no prototype studied could support recent land costs.
- Usage of the State Density Bonus does not affect these findings.

Recommended Inclusionary Requirements

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- The feasibility analysis suggests an on-site requirement of in the range of 12 – 16%, and a fee percentage in the range of 22 - 29% are the maximum supportable by at least some of the prototypes. We recommend the requirements be set within these ranges.
- These are below the 2022 onsite requirements of 21.5%/23.5% for apartments/condominiums, and 30%/33% requirements for off-site and the in-lieu fee.
- High-rise condominium prototypes (generally above 8 stories), and all apartment prototypes, would not be feasible at these inclusionary levels. Some low- and mid-rise condominium prototypes (below 8 stories) should be feasible with these reduced requirements.
- Within these recommended ranges, a greater proportion of individual low-rise condominium projects are likely to be feasible than would be the case for mid-rise condominium projects. Setting requirements in the lower portion of the recommended ranges would increase the ultimate share of mid-rise projects that are likely to be feasible.
- These reduced requirements should apply to new projects, and decision-makers should consider allowing currently-entitled projects to re-entitle with lower requirements, for a limited period of time.

Other Housing Feasibility Considerations

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- Our recommendations in this process are limited to inclusionary rates.
- Other policy levers available to the Mayor and Board may also affect the financial feasibility of housing development, and should be considered alongside inclusionary rates, such as:
 - Impact and other permanent regulatory fees
 - Timing of payment
 - Other city-imposed exactions

Process Recommendations

- The Controller's Office has two additional recommendations on the process of this Triennial Review to ensure inclusionary requirements align with project feasibility as market conditions change in the future.
1. **Duration of new requirements** – as these requirements reflect current market conditions, we recommend these revised requirements remain in place through April 2026. By that time the Controller will have published new feasibility recommendations from the next Triennial review, if the following recommendation is also adopted.
 2. **Expiration of TAC member terms**- Currently, TAC member terms expire shortly after the Controller's Office publishes its recommendations. We will recommend that TAC members not expire, to ensure a fully-seated TAC is available when needed for the next Triennial Review, or earlier if market conditions warrant. TAC members should continue to serve at the pleasure of their appointing authority and can be replaced at any time.

Timing of the next Triennial review- If these recommendations are implemented, the Controller's Office is committed to completing the next Triennial Review by April 2026, subject to available funding for consultants.