

# Some New Ideas for San Francisco's Continual Housing Crisis

## THE PROBLEM: Placing the "Housing Crisis" in its Social Context

The near permanent housing crisis facing our City stems from one undeniable fact: most San Franciscans pay far too much of their income for housing. That fact has profound impacts for our City:

- It complicates creating enduring and humane solutions to homelessness;
- It shapes the demographics of our neighborhoods and communities: forcing out families, the elderly, students, young workers and artists;
- It produces social instability as residents are in near constant fear of being evicted, "gentrified", or bull-dozed out of their neighborhoods;
- It makes economic recovery difficult by tying up too much money in the housing market, leaving less money for new goods and services.
- It puts a profound burden on businesses to pay enough for their employees to live here.

While San Francisco is not unique among California cities, all of which suffer the same affordable housing shortage, it does face special obstacles in meeting this challenge. Specifically, the geographic reality of the physical limits of our 47 square miles make the price of land out of reach for all but the wealthiest, our central location during the boom of the 1990s created an insatiable demand for housing here and a rapid intensification of land uses around downtown. All of these factors drove the increasing cost of housing.

While we all know that San Francisco is physically compact we often don't connect that fact with housing policy. In housing terms San Francisco is even smaller than most realize. Only about one third of the City - 13 square miles - is currently zoned or used for residential development, the other 34 square miles are used for schools and hospitals, public building, parks and open spaces, office buildings, shops and stores and streets and sidewalks. With such limited space it is not surprising that San Francisco- with 16,000 people per square mile- is the second only to Manhattan in urban density. Calls by some for even greater "density" as a "solution" must be placed in this context: we have a very limited amount of land able to be developed for housing unless Golden Gate and McLaren Park are paved over. And density creates its own challenges, as will be discussed below, and does not, in itself, produce less expensive housing.

Increasing costs of housing places an enormous burden on local businesses, as well as residents. Jobs vital to the economy - retail hotel workers and medical workers as just two examples - get paid too little to afford to purchase in a home in San Francisco. Currently, 140,000 San Franciscan households or 44% of the total, earn 60% or less than area median income.

But there is an even more troubling aspect of our City's economy: new jobs, many in the higher paying "new tech" sector, increasingly are going to non-San Francisco residents. Between 1990 and 2000, the period of the "dot com boom", 60% of all new jobs created in San Francisco went to non-residents, according to the Department of City Planning, fueling much of the "gentrification" pressures felt in the City as better paying newcomers "out bid" residents for housing (source: DHE page 16 Table I-12).

# What Can Be Done?

By placing the “housing crisis” in its local social context we move away from the sterile and ineffective “solutions” of the past that view the issue totally in terms of new construction of unaffordable condos and certain other policies suggest themselves.

If the housing issue is viewed as being one of affordability and the challenge imposed by very limited amount of land to develop new housing, then preserving existing housing, by definition already here and in reality much more “affordable” than any newly built housing, becomes an issue of great importance.

If we agree that household income is an important housing issue then providing or creating jobs, which pay a human minimum wage, become very important in terms of a comprehensive housing policy.

If neighbors are opposed to greater density for new high-rise housing developments and fear the impact these out of scale new developments will have on their neighborhoods shops, schools, parking and parks what can the City do to lessen these impacts and protect existing neighborhoods while expanding affordable housing opportunities becomes an imperative for the next administration?

## A Comprehensive Affordable Housing Strategy

A comprehensive affordable housing strategy must view housing policy in its total “social” context.

- It must address the growing disparity between income and housing costs;
- It must address the physical reality of San Francisco by protecting and seeking more affordable forms of ownership of the existing housing stock;
- It must recognize the necessity of a collaborative planning process in finding new sites for new housing in existing neighborhoods which respects the neighborhood physical character; and
- It must identify local sources of financing affordable housing as both the state and federal government has abandoned their financial responsibility for this critical human need.

Putting San Franciscans first by increasing incomes the growing gap between what working San Franciscans earn and what market rate housing costs will be slowed. But the other side of the income/housing dynamic must be addressed: increasing permanently affordable opportunities for low and middle income San Franciscans. My specific ideas on that are listed below.

- **I will strongly support the current rent control policy of the City and seek all legal amendments to strengthen it;**
- **I will introduce legislation requiring that a “one for one” replacement, at rent controlled prices, occur when any rent controlled apartment is demolished or converted to non-rental status;**
- **I will work with our Sacramento delegation on seeking amendments to state law which will allow us to strengthen our local rent control laws, including limiting Ellis Act evictions**

## Protecting What We Have

1. **Strongly support the continuation of rent control and the protection of existing rent controlled apartments from demolition or conversion.**

75% of all rental units in San Francisco (145,000 of 200,00 apartments) are covered by our local Rent Arbitration Ordinance. Tenants in these apartments pay about 25% less in rent than tenants in non rent-controlled apartments, making rent control the largest single “affordable housing” program in the City.

Since state legislation mandates that all new housing built must be exempt from rent control, the preservation of existing rent controlled apartments becomes crucial to any comprehensive affordable housing program.

## **2. Dramatically Increase the City's Role in Purchasing and Rehabilitating Existing Housing While Making that Housing "Permanently Affordable" Through a Variety of "Community Ownership" Mechanisms**

Currently the City assists the acquisition and rehabilitation of about 300 existing homes a year by faith and community based non-profit corporations at permanently affordable prices. In addition, the City has undertaken, through co-operative and non-profit ownership, to purchase existing Section 8 subsidized housing developments whose federal subsidies have "expired", thus keeping them from reverting to market rate. These programs show that "community ownership" programs work in the real world. I would like to quadruple the number of such units each year through an expanded program, seeking a variety of "community ownership" mechanisms tailored to each neighborhood.

There should be no question in anyone's mind that I support resident ownership of housing in San Francisco. The real question is what the City's role in assisting that ownership should be.

Residents who own the buildings in which they live have greater "housing security" than any tenant and are better able to withstand the boom and bust cycle so common in our economy. And that housing security means stronger neighborhoods as more of us are able to stay in our homes longer and become more involved in the life of our communities.

But most importantly resident ownership means San Franciscans can stabilize the single largest living expense in the City - the cost of housing - by actually "fixing" their monthly housing costs with fixed mortgage payments. Removing as much housing as possible from the speculative real estate market to various forms of resident ownership is a policy, which will guide my administration.

What we cannot allow in seeking increased resident ownership is the wholesale conversion of rent controlled apartments - the most affordable housing available for working San Franciscans - into ownership opportunities for a few at the expense of the many. We cannot adopt a policy of ownership which merely favors the economically strong over the weak

I have opposed and will continue to oppose changes in City policy, which allow massive conversions of rent-controlled units to ownership units that would displace existing tenants. I do not support giving developers "density bonuses" for producing more market rate priced "ownership" housing. I do not support giving City funds to programs which allow assisted homeowners to turn around and sell that assisted home to highest bidder. In short, I do not support public policy, which would assist in perpetuating a speculative housing market.

The challenge of resident ownership in San Francisco is bridging the gap between what the average San Franciscans earn and what the average cost of ownership is. The simple fact of the matter is that while San Francisco has the most expensive real estate in the nation it does not have an economy, which produces the highest paying jobs in the nation.

Less than 12% of San Franciscans can afford the averaged priced home in San Francisco and it is that "affordability gap" that must be closed if we are to truly achieve the benefits of resident ownership. Closing that gap is the major challenge in any genuine resident ownership housing program in San Francisco.

One reason so few San Franciscans can "afford" ownership is that the primary source of mortgage financing is private, for-profit lenders who apply a strict formula to borrowers current income. Since the overwhelming majority of San Franciscans earn far less than that formula, very few "qualify" for private mortgage financing.

We must create new, more socially responsible, sources of long term mortgage financing; sources which will understand that San Franciscans incomes will grow over time if their housing costs are stabilized. I will go to our City's unions- teachers, firefighters, police and City workers- and ask that each set aside a small portion of billions of dollars in public retirement funds for long term mortgages, at current

### **To close the gap for real resident ownership:**

- **I will work to increase the pool of public funds to "write-down" the cost of acquiring land for resident ownership;**
- **I will work to create socially responsible sources of long term mortgage financing, for those who cannot borrow from the private market;**
- **I will expand down payment assistance and "resident ownership" counseling programs;**
- **I will promote "limited equity" arrangements that allow owners who wish to sell only to recover their actual costs plus a limited fixed percentage return, so that the home remains**

market rates of interest, for their own employees currently living in San Francisco to help them purchase the buildings in which they and other San Franciscans live.

I shall expand the current home ownership counseling programs of Asian, Inc., Mission Economic Development Association and the San Francisco Housing Development Association and others which provide first time home owners information and assistance in home ownership financial planning, a critical and necessary aspect of increasing resident ownership.

We cannot expect businesses to catch up to the rapidly escalating cost of land in San Francisco, by paying higher incomes across the board to San Francisco workers. We must use public funds to write down the cost of land – land that will remain permanently affordable through a partnership of community ownership and carefully monitoring and support on the part of the City.

In my 5<sup>th</sup> Supervisor District two such innovative home ownership programs exist which share these characteristics: St. Francis Square and Parkview Commons.

Parkview Commons on Frederick next to Kezar was built on the site of the old Polytechnic High School. It was designed by a two year long community planning process. It was built on land leased by the City from the School District. Public funds wrote down to cost of construction, with the saving being passed on in the form of lower process for the housing. Down payment assistance loans were provided from funds collected from office developers. 114 units of ownership housing were produced. Families with over 200 children live there now. Ownership is limited equity with sellers getting what they paid plus ten percent when they sell.

St. Francis Square at Geary and Divisadero is the result of a City union partnership in which the City, through the Redevelopment Agency provided subsidized land and construction financing and the ILWU provided long term mortgage financing to provide ownership opportunities to lower income residents of the Western Addition. Unfortunately, because St. Francis Square was a standalone cooperative they were able to vote last year to lift their resale price restrictions and become market rate.

My administration will seek to develop community ownership hybrid models, such as the community land trust model to ensure the long-term affordability of ownership units. Community land trusts (CLTs) separate ownership of land from buildings, retaining ownership of the land and selling the building – whether it's a single family home, a condominium, a coop, or a nonprofit rental building. It is the value of land that is escalating so rapidly in this City, not the value of the buildings, which actually depreciate over time. Treating land and buildings separately can greatly take down the cost of property ownership and ensure its continued affordability for future generations. For more information on CLTs for San Francisco visit ([www.sfclt.org](http://www.sfclt.org)).

## **Creating Consensus on New Housing Opportunities: Planning for Affordable Housing**

Even if we convert 1,000 to existing units a year to new forms of permanently affordable community ownership we will still need to build new permanently affordable housing. Development of such new housing in already developed San Francisco on the limited amount of land that we have available to us means the creation of a totally new planning process which creates a new consensus among San Franciscans on where and what size that new development shall be. This means a fundamental change in the way our Planning Department goes about its business.

Two years ago my colleges and I submitted to the voters a Charter Amendment changing who appoints the Planning Commission, taking it away from the total control of the Mayor and producing an "independent" Commission, serving fixed terms and jointly appointed by the Supervisors and the Mayor. This far reaching reform was aimed at giving average San Franciscans a bigger voice in planning the future of the City. That goal has yet to be fully realized. We need to make it a reality.

The only way to get agreement on the size and location of new affordable housing- including housing able to house homeless people- so desperately needed is for San Franciscans to be directly involved in its planning. We must transform the Planning Department from being the "department of project approval" to once again become a planning department. The current recession gives us the time to do some comprehensive planning. We must seize that time.

## 1. Redirect Planning Priorities by Changing the Way the Planning Department is Funded

Currently the Planning Department receives most of its funding from fees charged developers for approving their projects. This creates a profound "conflict of interest" in that the more projects approved the more funds for the Planning Department. In the last three years the Board of Supervisors has increased the amount of "general fund" funding for the Department earmarked for neighborhood and city wide planning studies, not developer approvals. This policy will continue under my administration. The primary task of the Planning Department must be planning, not project approval.

## 2. Expand Neighborhood Based Planning to Each Neighborhood

Now underway are four "neighborhood based" planning initiatives by the Planning Department, with an additional neighborhood to be added this fiscal year. These "neighborhood based" planning processes bring together various City agencies with community and neighborhood residents for an extended period of "joint" planning in which the specific needs of the neighborhood are incorporated along with the citywide need to identify new housing sites. In short, neighbors approve the location and density of new development before it occurs. In the one completed neighborhood based plan, for the Octavia boulevard area in my Supervisor district all parties are supportive of a plan that calls for nearly 1,000 units of new housing.

We must engage in this process in each neighborhood. It works, it creates consensus and it will result in new affordable housing opportunities.

## 3. Require "Public Benefits" for New Market Rate Housing Development

**Two things should happen to address these new, high-density market rate housing towers and the policies of the Planning Department calling for greater residential density:**

- **Amend the current Inclusionary Housing Zoning ordinance to address market rate housing developments of over 85 feet and 150 units to require 20% of the units to be affordable to people earning 50% of median (\$30,000-\$45,000);**
- **Draft and pass a "Public Benefits" policy which requires developers of major market rate housing projects (over 85 feet and/or 150 units) receiving parking concessions and or density increases to provide a "basket" of public benefits which will commit the developer to provide, tailored to the neighborhood in which they are proposed, either park and open spaces, public transit improvements, additional affordable housing, neighborhood serving retail.**

Currently the Department of City Planning is proposing policies calling for increased residential density along "transit corridors" and the reduction of off-street parking spaces for certain new high density housing construction. In addition, proposals to build 12 massive market rate housing towers of between 140 and 800 units each have recently been approved or are before the Planning Commission and a single project at 9<sup>th</sup> and Market of some 1,200 units has been announced.

Clearly, market rate developers have shifted their attention from the over built high-rise office business to the high-rise market rate residential market.

These huge developments and policies calling for more residential density raise serious questions.

The basic assumption seems to be that any new housing, even \$400,000, 800 s/f studios in high rise towers, is a good thing and nothing more needs to be asked from these developers other than the minimum level of affordability offered by the Inclusionary Zoning ordinance which requires 12% of the new units to be affordable to households earning as much as \$120,000 a year.

While I strongly support the "transit first" policy of our City's Charter (Section 16.102) calling for "economically and environmentally sound alterna-

tive to transportation by individual automobiles" allowing greater density along transit corridors and relieving developers from parking requirements without, at the same time, requiring those developers fund, through a one time fee, payments to MUNI to increase its transit capacity is simply wrong headed and actually undercuts a "transit first" policy. We require commercial office developers to pay for increased MUNI usage caused by their workers and we should do the same for market rate housing developers.

Moreover, massive new housing developments impact existing neighborhoods and should be limited when such impacts are greatly out of scale with existing neighborhood physical character. In addition, in areas such as the South of Market, Rincon Hill, Showplace Square and the North Mission these massive developments are being located in areas which have no existing "neighborhood infrastructure" of neighborhood serving retail stores, MUNI lines, community facilities, parks and open spaces. The City cannot, in the foreseeable future, finance these new public services and the developers should be required to do so as a condition of approval.

## Local Affordable Housing Financing

In the end, the only way to make housing affordable to the average San Franciscan is through the use of affordable housing subsidizes. Prices for existing housing or new construction in San Francisco is so expensive that people earning the average San Francisco income cannot keep their housing costs at 30-35% of their total income unless some of that cost is "written off" by public funds.

Both the federal and state governments have basically got out of the affordable housing financing business. For example, the first installment of last years state affordable housing bond was used to fill holes in the states budget resulting in no new money for affordable housing. George Bush is spending more money developing housing in Baghdad than in the San Francisco, cutting federal funds for domestic affordable housing financing. Moreover, what state and federal affordable housing financing that does exist often times requires a "local match" with local financing.

But there is even another reason for local sources of financing: flexibility to meet our unique populations housing needs. Often times federal and state housing programs have minimum density requirements or use limitations that may not meet our local needs. Local money paying for unique local solutions is the best way to meet our affordable housing challenge.

But using local money means that certain guarantees of "permanent affordability" must be met. The first is that this financing should be for capital development of affordable housing- ownership of the land and the development of the housing- and not used for "operating subsidies" which leave the building and the land in private ownership while allocating to the public all the costs of operating the building. Second, local funding should insure that the public, through various forms of "community ownership" as listed above, actually own the land and buildings and thus kept from being sold for speculative profit by the first user of the subsidy. In this way local funds used for the purchase and development of affordable housing result in "permanent affordability" paying affordable housing returns to San Francis's for generations.

San Francisco currently uses two forms of affordable housing financing which meet these permanently affordable requirements: a general obligation bond (the only City in the nation to tax itself in this way to produce affordable housing development) and, through the Redevelopment Agency, "tax increment" bonds (bonds issued on the future property tax revenues generated in Redevelopment areas).

The problem is that the futures of both are in doubt.

**The point here is that local permanently affordable housing capital subsidies not only are critically needed but actually work. We must look for additional forms of subsidies if we are unable to replace these local funds.**

- **I will seek to change state law reducing the required vote for affordable housing bonds to 55% as is now the case for school bonds;**
- **I will resist efforts by the State to capture tax increment financing for affordable housing;**
- **I will convene a broad based "blue ribbon" committee to devise a new source of local capital development financing for affordable housing acquisition and development in time to place the issue on the November, 2004 ballot;**
- **I will seek an agreement with local public sector trade unions to use a portion of the retirement funds for limited equity home ownership mortgage financing opportunities for union members (school teachers, firefighters, police officers, health care, social service and other City employees).**

Last year, although over 117,000 San Franciscans (56% of the vote) voted for a new \$250 million general obligation bond for affordable housing ownership and development, the measure failed to get the required 2/3rds vote and failed to pass. Since the 1996 \$100 million bond was spent producing some 3,000 affordable apartments and transitional units and providing 300 families with first time homeowner loans by the end of this year, next year presents a very real challenge.

The state budget deficit has also called into question the future availability of redevelopment Agency tax increment financing. Since its inception in 1990, the tax increment affordable housing program has pumped some \$200 million into our local economy to finance the development of over 8,200 affordable homes. If state budget cutters divert these funds to the states deficit our City will face a major crisis.



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