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

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 diego.sanchez@sfgov.org, 415-575-9082
Reviewed by:	Aaron Starr, Manager of Legislative Affairs 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 calculating the JHLF rate that

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

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 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.

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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

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.

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

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[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.

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:	Nexus and Feasibility Documents: June 7, 2019 Memorandum on 2019 Jobs Housing Nexus Analysis Jobs Housing Nexus Analysis, May 2019 November 19, 2018 Memorandum on Inclusionary Fee Update (showing the Affordability/Actual Funding Gap for purposes of Jobs Housing Nexus calculation) Jobs Housing Linkage Fee Update Development Feasibility Assessment, June 2019
Exhibit D:	Board of Supervisors File No. 1905448

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Planning Commission Draft Resolution

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 diego.sanchez@sfgov.org, 415-575-9082
Reviewed by:	Aaron D Starr, Manager of Legislative Affairs aaron.starr@sfgov.org, 415-558-6362

RESOLUTION APPROVING WITH MODIFICATIONS 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 with modifications** the proposed ordinance. Modifications include:

1. Amend the proposed JHLF rates according to the maximum allowed under feasibility assessments.

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. Setting the JHLF rate in accordance with feasibility assessments 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.

4. **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.

5. **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.

6. **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 WITH MODIFICATIONS 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:

NOES:

ABSENT:

ADOPTED: September 19, 2019

M E M O R A N D U M

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

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

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

Date: **June 7, 2019**

Subject: **2019 Jobs Housing Nexus Analysis**

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.

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

TABLE OF CONTENTS

List of Tables

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 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]

	Affordable Unit Demand Per 1,000 Square Feet of GFA				
Building Type	Extremely Low	Very Low Income	Low Income	Moderate Income	Total Affordable Unit Demand Per 1,000 Square Feet of GFA (0% to 120% AMI)
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 portals
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

APPENDIX TABLE B-1
INDUSTRY CATEGORIES BY BUILDING TYPE
JOBS HOUSING NEXUS ANALYSIS
SAN FRANCISCO, CA

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.

London N. Breed
Mayor

Kate Hartley
Director

To: The San Francisco Board of Supervisors
From: The Mayor's Office of Housing and Community Development
The San Francisco Planning Department
Date: November 19, 2018
Re: Inclusionary Fees Update, January 1, 2019

In August 2017, the Board passed Ordinance 158-17, modifying the City's inclusionary housing requirements. Those amendments, specifically those in Section 415.5(b)(2) of the Planning Code, directed the Controller, along with the Mayor's Office of Housing and Community Development (MOHCD) and the Inclusionary Housing Technical Advisory Committee (TAC), to develop a methodology for the calculation, indexing, and application of this fee:

> *No later than January 31, 2018, the Controller, with the support of consultants as necessary, and in consultation with the Inclusionary Housing Technical Advisory Committee (TAC) established in Planning Code Section 415.10, shall conduct a study to develop an appropriate methodology for calculating, indexing, and applying the appropriate amount of the Inclusionary Affordable Housing Fee.*

In May 2018, as noted in Attachment 1, *Inclusionary Housing Fee Methodology*, the Controller's Office completed this effort and conveyed its recommendations to the Board of Supervisors. Its primary recommendations were to:

1. Calculate the fee based on MOHCD's funding gap, calculated from the actual documented costs of producing affordable housing over the three years prior to any annual update.
2. Index the fee on an annual basis by utilizing an annual, rolling update of its 3-year construction cost survey, in place of any pre-existing inflation indicator.
3. Apply the fee on a per-gross square foot (GSF) basis, to simplify administration, as well as to apply the fee more equitably for projects with varying unit sizes.

The Ordinance further directed MOHCD to implement the results of the Controller's recommendations, by updating the fee accordingly on an annual basis, and furthermore updating the methodology and technical report every three years:

For all housing developments, no later than January 1 of each year, MOHCD shall adjust the fee based on the cost of constructing affordable housing, including development and land acquisition costs.

The Department and MOHCD shall update the fee methodology and technical report every three years, with analysis from the Technical Advisory Committee, in order to ensure that the affordability gap remains current, consistent with the requirements set forth below in Section 415.5(b)(3) and Section 415.10.

This memorandum summarizes how MOHCD proposes to implement those recommendations.

Calculation of the Fee

Calculating the fee according to the direction of the Board of Supervisors, and the recommendations of the Controller's Office and the TAC requires adhering to the following basic formula:

$$\frac{\text{Actual Funding Gap per unit}}{\text{Average Size of New Unit In San Francisco}} = \text{In Lieu Fee per GSF} \quad X \quad \text{Percent Required Under Planning Code Section 415} = \text{Fee required per Gross Square Foot of Development}$$

Actual Funding Gap Per Unit

As noted in the Controller's memo, MOHCD previously determined that the actual documented cost of producing an affordable housing unit between January 2015 and December 2017 was, on average, $235,000 per unit. MOHCD has updated their survey of costs to cover the most recent 3-year period for which data is available, which is the Third Quarter of 2015 through Third Quarter of 2018 (Q3 2015 – Q3 2018), and has determined that the current, actual documented costs of producing an affordable housing unit over that period is $239,000 per unit.

Average Size of New Unit In San Francisco

Also as noted in the Controller's memorandum, applying the fee on a per-gross square foot (GSF) basis requires dividing MOHCD's per-unit cost by an estimated average size of units in new projects to which the fee will be applied. To determine this, the Planning Department reviewed recently approved residential projects that have elected to pay the Affordable Housing Fee as their method of compliance with the Inclusionary program. For each project, the residential gross floor area was divided by the total project units to estimate the average gross square feet per unit. This method was deemed appropriate for this analysis because it captures the actual residential gross square feet of fee projects, as calculated in the same manner that will be used by Planning when assessing the fee for future projects.

Using this methodology, Planning reviewed 26 residential projects that were entitled between Q3 2015 and Q3 2018 that elected to pay the Affordable Housing Fee. Of these, seven were small projects below 25 units, seven were large rental projects, and 12 were large ownership projects. The average gross residential square feet per unit across all projects was 1,198 gross square feet. Note that this measurement includes all space in a building associated with residential uses, including amenity and lobby space, except for parking, so it is expected to be considerably larger than the net unit sizes that are frequently referred to in the development process.

Affordable Housing Fee for 2019

This method yields an Affordable Housing Fee (or "in-lieu" fee) for the 2019 calendar year of:

$$\frac{\underset{\text{(Actual Funding Gap)}}{\mathbf{\$239{,}000}}}{\underset{\text{(Average residential GSF per unit)}}{\mathbf{1{,}198}}} = \underset{\text{(In Lieu Fee per GSF)}}{\mathbf{\$199.50}}$$

When applied to a project, the Affordable Housing Fee would then be multiplied by the applicable inclusionary percentage in Section 415, based on whether the project is less than 25 units (20%); or for projects that are 25 units or greater, based on its tenure as a rental (30%) or ownership (33%) project.

For example, a large (25 or more units) condominium project with 100,000 residential gross square feet would pay an Affordable Housing Fee of $6,583,500 (100,000 gsf x 33% x $199.50).

Sample Analysis of Fee Revenue

To evaluate the effect of this new fee on MOHCD revenue into the Affordable Housing Fund, as compared with the prior fee methodology in place before Proposition C, and as compared with a per unit fee, Planning finally applied the fee rate to a set of 45 projects entitled since 2014 (including the 26 from Q3 2015 to Q3 2018 that were used to determine the fee) for which data was available. These projects were used simply as test cases and this analysis is *not* a projection of fee revenue, and does not consider the particular requirements of any specific project.

This analysis found that overall, the new methodology described here would result in 27 percent higher fee payments than under the previous methodology (20% x unit type x per unit fee). The analysis also found that total fee payments would be roughly equal whether the MOHCD Actual Funding Gap were applied on a per unit or per square foot basis. The difference is that projects proposing units that are larger than the average unit size would pay more when the fee is applied per gross square foot, rather than on a per unit basis. This ensures that the fee paid is proportional to the actual project size, rather than rewarding projects with very large units with a relatively lower fee, as under the current method.

Implementation and Indexing

Implementation

The above fee will be included in the San Francisco Citywide Development Impact Fee Register that will be effective as of January 1, 2019. The Planning Code requires that the updated Fee Register be published 30 days in advance, or December 1, 2018.

As with all other impact fees, the amount of the Affordable Housing Fee will be assessed at the time of a project's entitlement, and due when the project's First Construction Document (generally, the first building permit for vertical construction) is issued. The fee amount for entitled projects will be updated annually on January 1 until the First Construction Document is issued.

Indexing

As indicated in the Controller's memorandum, the fee will be updated annually by re-calculating the Actual Funding Gap, and the average unit size of fee projects, using data from projects recorded in the most recent 3-year period. The updated fee amount will be effective on January 1 of the following year. MOHCD and Planning will include data available as of the end of the third quarter of each calendar year. For example, to set the 2020 fee, projects from Q3 2016 – Q3 2019 will be included in the analysis. This "rolling" look-back will allow for the fee to keep up with MOHCD's actual cost to subsidize new affordable housing and trends in unit sizes of entitled projects, but without resulting in sharp swings in the fee amount from year to year that could result from using data from only a single year or point in time. The fee methodology, manner of indexing, and inclusionary percentage rates would be subject to review by the Controller and Technical Advisory Committee every three years, as per Planning Code Section 415.10.

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

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.

The Economics of Land Use

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Table 1 Development Prototypes

Prototype	1 Central SoMa - Large Cap (Large)	2 Central SoMa - Large Cap (Medium)	3 Central SoMa - Small Cap	4 Transit Center - Large Cap	5 Eastern Neighborhoods (EN) - Small Cap	6 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 Central SoMa - Large Cap (Large)	2 Central SoMa - Large Cap (Medium)	3 Central SoMa - Small Cap	4 Transit Center - Large Cap	5 Eastern Neighborhoods (EN) - Small Cap	6 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 Central SoMa - Large Cap (Large)	2 Central SoMa - Large Cap (Medium)	3 Central SoMa - Small Cap	4 Transit Center - Large Cap	5 Eastern Neighborhoods (EN) - Small Cap	6 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
Land Cost (does not apply to prototypes 5 & 6): 25% reduction
Direct Cost (building construction, parking, and site work): 25% reduction

Office Rent Increase
13% increase

strongly feasible
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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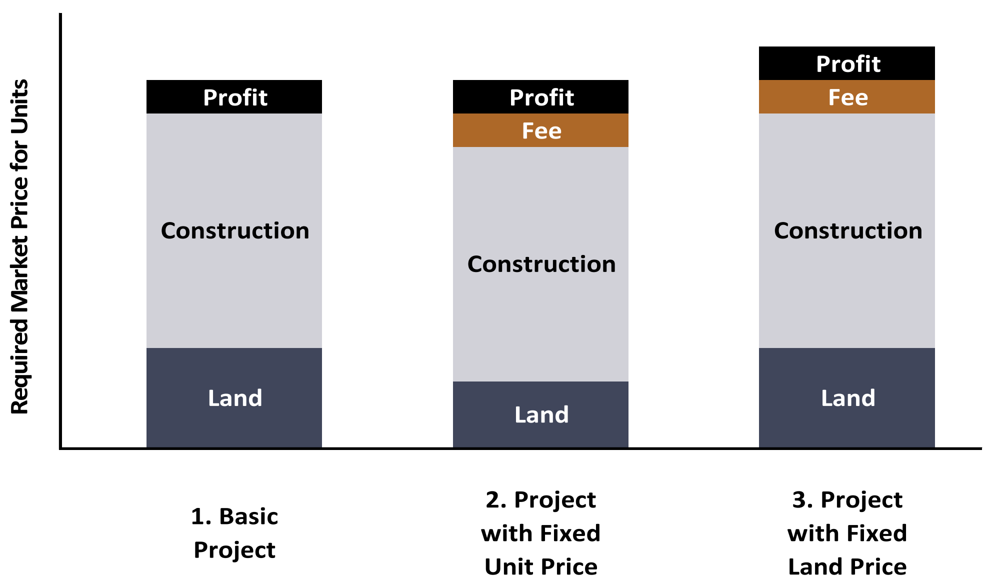
[6] Neighborhood specific impact fees include the Eastern Neighborhoods Infrastructure Impact Fee, Central SoMa TDR Purchase, Central SoMa Area Plan Fee, Central SoMa Community Facilities Fee, TCDP Transportation and Street Improvement Fee, TCDP Open Space Fee, TCDP Transit Delay Mitigation Fee, and 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.

[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 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.

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. ___ and is incorporated herein by reference. The Board affirms this determination.

(b) On __________, the Planning Commission, in Resolution No. __________, 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. __________, 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. ______, and the Board incorporates such reasons herein by reference.

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

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. ___________, 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 413.7; 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 413.6; or

(3) Combine the above options pursuant to Section 413.8.

*** * * ***

~~***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. 413.6. 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 413.6A, 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 413.6B.

* * * *

TABLE 413.6A

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*

PDR	$0~~.00~~
Laboratory~~Research & Development~~	$~~13.30~~46.43
Residential	$0~~.00~~
Retail	$18.62
Small Enterprise Workspace	$15.69

TABLE 413.6B

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 413.6A minus $14.09
Institutional which received its First Certificate of	Entertainment, Hotel, ~~Integrated PDR,~~ Office,	$0~~.00~~

Occupancy on or before April 1, 2010	*Laboratory*~~*Research & Development*~~, Retail, or Small Enterprise Workspace	
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 413.6
Residential	Entertainment, Hotel, ~~*Integrated PDR,*~~ Office, PDR, *Laboratory*~~*Research & Development*~~, Retail, or Small Enterprise Workspace	Use Fee from Table 413.6

~~*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*~~*c*~~) Any in-lieu fee required under this Section *413.6* 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) Notwithstanding any other provision of this Code, for any project that (1) received an approval from the Planning Commission or Planning Department on or before December 31, 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. _____, amending this Section 413.6, such project shall 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.

SEC. 413.7. 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. 413.8. 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 413.7*~~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 413.6. 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 413.7~~*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. 413.9. LIEN PROCEEDINGS.

A project sponsor's failure to comply with the requirements of Sections ~~*413.5,*~~ 413.6 and 413.7 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 413.6, 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. 413.10. 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 *413.10*. 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 413.10;

(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 413.10.*

(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*~~.

* * * *

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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