



LEGISLATIVE ANALYST REPORT

To: Members of the Board of Supervisors
From: Ernie Tedeschi, with Adam Van de Water, Office of the Legislative Analyst
Date: July 10, 2006
Re: **Homebuyer Pre-Qualification** (BOS File No. 051791) (OLA No. 079-05)

SUMMARY OF REQUESTED ACTION

The Board passed a motion introduced by Supervisor Ma requesting that the Office of the Legislative Analyst identify and describe current first-time homebuyer pre-qualification programs, review best practices, and analyze the feasibility of adopting a program in conjunction with the City and County of San Francisco.

EXECUTIVE SUMMARY

The Mayor's Office of Housing (MOH) has already adopted a provisional policy prohibiting developers from placing any pre-qualification requirements on below market rate (BMR) applicants. A more formal version of this policy will begin the approval process in July for ultimate inclusion in the MOH Procedures Manual.

BACKGROUND

In 1992, San Francisco adopted an inclusionary housing ordinance that only applied to Planned Unit Developments (any development on a parcel over ½ acre in size) and projects requiring a conditional use permit. Given the lack of new housing that met these conditions, and the resulting shortage of new affordable units, in January 2002 San Francisco enacted its current, stronger inclusionary housing ordinance, broadened to include all new projects of ten units or more. Section 315 of the Planning Code requires these projects to sell ten percent of their units to eligible households at affordable prices¹ in order to receive a certificate of occupancy from the Department of Building Inspection in coordination with the Planning Commission. By the end of 2003, the ordinance had generated 90 affordable units, with projects contributing 745 more under planning review² and more than 1,500 units at a half-dozen projects are expected to be delivered in Mission Bay by 2007.³

Prospective buyers of BMR units deal directly with the developers to obtain them. For each project, they must do the following:

¹ To qualify, households must be first-time homebuyers earning no more than 100 percent of AMI. Affordability assumes all housing costs account for no more than 33 percent of combined household annual net income, a 10 percent down payment, and available financing. In the four years since it became effective June 18, 2001, the inclusionary housing ordinance has been applied to 432 building permits, 233 of which (54%) were connected to buildings containing 10 or more units

² Business and Professional People for the Public Interest, *Large Cities and Inclusionary Zoning*, November 2003.

³ SF Business Times. December 9, 2005.

- 1) Complete a BMR application, which includes paperwork from the developer, the lead lender, and the City;
- 2) Submit the previous three years' W-2s for income and first-time homebuyer eligibility verification;
- 3) Get pre-qualified by a lender of the developer's choosing (Optional, up to developer);
- 4) Receive a lottery number from the developer; and
- 5) If selected from the lottery, secure a mortgage commitment from any lender within 30 days.

In San Francisco, this process must be repeated on a development-by-development basis if the applicant is unsuccessful in the lottery stage.

CASE STUDIES: THE WATERMARK AND GLEN PARK MARKETPLACE

The Watermark is a 136-unit, 22-story condominium project that opened in February 2006 at 501 Beale St. (South of Market at Bryant). On December 15, 2005, the developers held a lottery to sell the required below market rate units (including 4 one-bedroom units, 11 two-bedroom units, and 1 three-bedroom unit, for a total of 16) at prices ranging from \$225,100 to \$294,600.

Glen Park Market Place is a 15-unit development slated for a June opening in the Glen Park neighborhood (53 Wilder St.). On June 1, the developer, Polaris Group, held a lottery for the requisite 2 BMR units. Polaris representative Garrett Frakes reported "significant" overlap between the applicants for the Glen Park Marketplace BMR units and those for previous Polaris developments' BMR units, suggesting that demand for BMR units comes from a relatively static pool of prospective homebuyers.

Competition for BMR units is tight. The Watermark lottery saw over 315 applicants for 16 available BMR units, while Glen Park Marketplace saw a similar number of applicants for only 2 units.

FINDINGS

According to Martha Brown and Doug Shoemaker at the Mayor's Office of Housing, their new policy is to prohibit pre-qualification by developers as an application criterion. The optional third step in the BMR application process mentioned above is thus no longer an option for the developer. The MOH plans to draft formal language to this effect and integrate it into their proposed revisions to the Procedures Manual, which will need to be approved by the Planning Commission. Consideration of these changes will begin once the Board hears pending inclusionary zoning legislation from Supervisors Daly, McGoldrick, and Maxwell on July 11.

OTHER JURISDICTIONS

Feedback from five jurisdictions with inclusionary zoning ordinances – Sacramento, San Diego, Palo Alto, Berkeley, and Fairfax County, VA – indicated that only Sacramento required a letter of pre-qualification from the applicant before signing up with the city’s centralized BMR waitlist. Palo Alto and San Diego, like Sacramento, contract with independent agencies – the public San Diego Housing Commission and the non-profit Palo Alto Housing Corporation (PAHC) respectively – who maintain a central waitlist for all BMR units in each city. Unlike Sacramento, however, San Diego and Palo Alto do not require letters of pre-qualification to sign on to their waitlists. Securing a spot on the waitlist is only predicated on meeting the income/asset and household-size criteria. Commitment from a lender is not necessary until the applicant is both a) selected from the waitlist, and b) interested in an available BMR unit. PAHC currently has a list of 5 lenders qualified for participation in the program, which they hope to expand soon to 8.

Berkeley, like San Francisco, lacks a centralized waitlist, but does not require a buyer to be pre-qualified before applying.

CONCLUSION

The Mayor’s Office of Housing will soon prohibit pre-qualification as a matter of policy. Only one jurisdiction out of five surveyed – Sacramento – requires pre-qualification. Additionally, only Berkeley places the impetus on the developer to collect applications and run BMR lotteries. Three of the five jurisdictions – Palo Alto, San Diego, and Fairfax County, VA – both maintain centralized BMR waitlists and postpone lender qualification until after the applicant has been selected for a unit.

APPENDIX A: DEFINITIONS AND DESCRIPTIONS

- *AMI* – Area Median Income for the San Francisco Metropolitan Statistical Area as established by HUD, adjusted for household size (figures for 2005):

1 person	\$66,500
2 people	\$76,000
3 people	\$85,500
4 people	\$95,000

Household income requirements include all income of persons 18 years or older who will be living in the property.

- *First-Time Homebuyer* – defined as a household in which no member has owned a home as their principal residence in the past three years. Most applications require copies of three most current pay stubs, three most recent years of federal tax returns and corresponding W-2 forms.
- *HUD* – U.S. Department of Housing and Urban Development.
- *Metropolitan Statistical Area* – Census grouping of counties for statistical purposes. Includes San Francisco, Alameda, Contra Costa, Marin, and San Mateo counties (Santa Clara County is grouped with San Benito in another MSA).