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BOARD OF SUPERVISORS
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Policy Analysis Report

To: Supervisor Dean Preston
From: Budget and Legislative Analyst's Office
Re: Financial Feasibility of Social Housing in San Francisco
Date: December 16, 2024



Summary of Requested Action

Your office requested that the Budget and Legislative Analyst conduct an analysis of the financial sustainability of mixed-income social housing in San Francisco.

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

Executive Summary

- Social housing includes housing that is developed, owned and operated by a government jurisdiction, nonprofit organization, or resident association for the purposes of affordability and stability, and includes households at many income levels. This form of social housing is distinct from traditional public and affordable housing in the United States, both of which are intended to be affordable for low-income households only. The City and County of San Francisco currently has 31,618 units in its portfolio of affordable housing units designated for low-income tenants.
- We found mixed-income social housing developments could be financially sustainable in San Francisco, but this will depend on the right combination of financing, construction and operating costs, rental income, and investments, or subsidies, by the City, as detailed below.

Social Housing legislation in San Francisco

- The San Francisco Board of Supervisors established a Housing Stability Fund in 2020 for the purpose of providing funds for the acquisition, creation, operations, development, construction, or rehabilitation of social housing developments. As codified in the Administrative Code, social housing developments for which the Fund is intended must have an ownership interest by the City, a nonprofit organization, residents, or a resident

association to ensure their permanent affordability or there must be permanent loan and regulatory agreements between these parties for this purpose. For residents of social housing developments, the Code sets a maximum average of 80 percent of Area Median Income for the zip code area in which the social housing development is located.

- Passed by San Francisco voters in 2020, Proposition I increased the City’s tax on real estate transactions with a value of \$10 million or more and on leases of 35 years or more. Though adopted as a general tax with the proceeds deposited into the City’s General Fund and available for any general government purpose, Proposition I-generated revenues can be used for contributions to the Housing Stability Fund to fund social housing projects. In fact, the Board of Supervisors passed a resolution in 2020 stating its intent to support the allocation of Proposition I revenues to rent relief and social housing.¹ Projected revenue from Proposition I for FY 2023-24 was \$85 million as reported by the Housing Stability Fund Oversight Board. Actual amounts collected were less than that due to the pandemic-related downturn in commercial building transfers but Controller projections for the coming years show expected increases in these revenues.
- While mixed-income social housing developments² are found in other cities and countries, notably Vienna and Singapore, they are less common in the United States. Montgomery County, Maryland, has created a type of social housing with its Housing Opportunities Commission. This public entity invests in privately constructed housing with public funds, assumes ownership, and subsidizes rents for tenants with a mix of incomes up to a certain cap.

BLA’s social housing model and scenarios

- To assess mixed-income social housing’s financial sustainability in San Francisco, we modelled six social housing development scenarios with different assumed mixes of tenant income, household size, and building size, and with variations in rental income, operating costs, public investment or subsidy levels, interest rates, and debt service costs.

¹ Resolution 365-20, adopted by the Board of Supervisors August 11, 2020.

² For purposes of this report, reference to social housing and our model of social housing developments in San Francisco means mixed income social housing developments.

- Five of the six mixed-income social housing scenarios we modeled for this analysis were found to be financially sustainable in our model; one scenario was not. We assembled robust development and operations and maintenance cost data from 2021 to use for our cost basis for five of our six scenarios. Though less robust cost data was available for 2024, we ran one scenario using 2024 as our cost basis year to determine if increases in costs, particularly construction costs, would render social housing projects financially infeasible and unsustainable.
- We found that cost increases between 2021 and 2024 increased per unit development and operations costs and would thus require a higher income mix of tenants for projects to be financially sustainable than required when using 2021 as the cost basis year. Development costs increased 18.5 percent and operating costs increased 25 percent from 2021 to 2024. However, even using 2024 data, the social housing project would still be able to accommodate a reasonable mix of lower- and middle-income tenants, as is the intention of social housing.
- Financial sustainability in the context of social housing development scenarios presented in this report means that rental income paid by tenants would be sufficient to cover annual operating costs and at least some debt service for the development, with the balance covered by public investments, or subsidies, and/or other sources. As with all private and public sector multifamily housing developments, large sums are needed upfront to cover the costs of development. With social housing, an investment, or subsidy, from the sponsoring jurisdiction (the City in this case) would be required to cover most or all development costs. Once constructed and operating, the City would not incur operating costs and would accrue equity in the building.
- Key assumptions for our scenarios are:
 - Each scenario contains a prescribed mix of tenant incomes relative to Area Median Income, with rents set at 25 percent of each tenant's income.
 - Operating costs at each development are set at \$19,470 per unit for scenarios in which 2021 was the cost basis year or \$24,357 per unit, when 2024 was the cost basis year based on a combination of actual costs incurred by nonprofit developers of traditional affordable housing projects in San Francisco and costs reported by apartment operators to

the National Apartment Association for the San Francisco-Oakland-Hayward Metropolitan Area.

- Development costs for five of our six scenarios (Scenarios A – E) are based on actual costs for affordable housing projects sponsored by the Mayor’s Office of Housing and Community Development (MOHCD) in 2021. These costs ranged from \$767 - \$979 per square foot or \$493,756 to \$632,368 per unit in 2021. Four of our scenarios assumed that land for the developments would be owned by the City and thus not part of development costs; one financially sustainable scenario (Scenario D) includes the cost of land, estimated based on actual costs for land purchased for affordable housing projects by MOHCD in 2021. To determine if increases in costs, particularly construction costs, between 2021 and 2024 might affect the financial sustainability of social housing projects, we prepared a sixth scenario (Scenario F) with construction and other costs escalated from their 2021 basis to a 2024 basis. This increased development costs to a range of \$909 - \$1,160 per square foot.
- Instead of private sector equity investments and loans associated with market rate developments, our mixed-income social housing projects would receive public investments, or subsidies, that would not be paid back, and borrowed funds that would need to be paid back to the extent that the subsidies are not sufficient to cover all development costs. These upfront lump sum subsidies in our scenarios range from \$29.4 million to \$61.9 million, or \$430,000 to \$490,000 per unit for four of our six scenarios.
- In two of our six scenarios (Scenarios B and F), the subsidy or City investment would be provided over time for a 55 year term for debt service on funds borrowed for construction from a source such as a public bank or City-issued bonds. The annual subsidy required to cover debt services is \$2.1 million for our scenarios when 2021 is the cost basis year, and \$3.2 million for our scenario when 2024 is the cost basis year. While the total amount of this subsidy would be greater than a lump sum upfront subsidy due to interest costs, it would have the advantage of only needing small increments of funds each year. In the case of the Housing Stability Fund, this would leave funds available for multiple social housing developments in the social housing program startup years.

- The City's Housing Stability Fund could serve as the vehicle for subsidies since that is its intended purpose as codified in the Administrative Code. Allocations to the Fund could come from Proposition I-generated revenue, or any other source designated by the Board of Supervisors. The amounts we have assumed for upfront subsidies are all under \$62 million per project, and feasible with Controller projections of Proposition I-generated revenue source for FYs 2024-25 and 2025-26.
- The financial sustainability of four of our six scenarios is dependent on interest rates for funds borrowed. These scenarios assume interest rates of 1 – 3 percent, with loans coming from sources such as a public bank to be established by the City, a City-created revolving loan fund, or other low interest loan programs. In our scenario that is not financially sustainable, we assumed that the project would have to obtain a market rate loan with an eight percent interest rate, and thus the project's annual rental income would not be sufficient to cover debt service, even with an upfront lump sum subsidy. Tradeoffs in the key project variables could enhance the feasibility of this scenario by, for example, allowing more higher income tenants to increase rental revenue or by the City providing a larger subsidy.
- Exhibit A below provides a summary of the key variables for our six scenarios, each of which is explained in more detail in this report. As can be seen, all projects as configured would generate rental income greater than operating costs. Much like market rate developments that require substantial funding from private sector sources, our mixed-income social housing developments would require substantial investments, or subsidies, from public sources to cover the costs of development. Assuming limitations in funds available from the City's Housing Stability Fund to cover construction (we assume a maximum of \$62 million available for lump sum upfront subsidies), the projects would still require and need to pay back borrowed funds. Assuming the projects obtain low-interest loans and the public subsidies identified, debt service could be covered by the developments' net annual rental income in all but one scenario (Scenario E) due to our assumption of a market rate loan in that instance.

Exhibit A: Key Variables for Six BLA Social Housing Development Scenarios

	Scenario A	Scenario B*	Scenario C	Scenario D**	Scenario E	Scenario F* (escalated to 2024 costs)
Financially Self-Sustaining?	Yes	Yes	Yes	Yes	No	Yes
Number of Units	60	136	136	136	136	136
Annual Rental Income	\$1,171,837	\$2,593,939	\$2,593,939	\$2,593,939	\$2,593,939	\$3,373,367
Annual Operating Costs	\$1,008,014	\$2,181,746	\$2,181,746	\$2,181,746	\$2,181,746	\$3,312,552
Annual Net Operating Income	\$163,823	\$412,193	\$412,193	\$412,193	\$412,193	\$60,815
Total Development Costs	\$37,942,100	\$67,150,850	\$67,150,850	\$70,652,850	\$67,150,850	\$87,309,450
Development Costs/Unit	\$632,368	\$493,756	\$493,756	\$519,506	\$493,756	\$641,981
Total Upfront Development Subsidy	\$29,400,000	\$0	\$58,480,000	\$61,880,000	\$58,480,000	\$0
Development Subsidy/Unit	\$490,000	\$842,150*	\$430,000	\$455,000	\$430,000	\$1,287,106*
Construction Loan Amount	\$8,542,100	\$67,150,850	\$8,670,850	\$8,772,850	\$8,670,850	\$87,309,450
Annual Debt Service	\$135,962	\$2,494,601	\$322,115	\$325,904	\$702,418	\$3,243,477
Net Income after Debt Service	\$27,861	(\$2,082,407)*	\$90,078	\$86,289	(\$290,225)	(\$3,182,662)*
Feasible?	YES	YES, with \$2.1 million annual subsidy	YES	YES	NO	YES, with \$3.2 million annual subsidy
Loan Terms	1% interest, 99-year	3% interest, 55-year	3% interest, 55-year	3% interest, 55-year	8% interest, 55-year	3% interest, 55-year
Notes	Subsidy: upfront lump sum	Subsidy: provided over time for annual debt service	Subsidy: upfront lump sum	Subsidy: upfront lump sum. Land included in costs.	Subsidy: upfront lump sum	Subsidy: provided over time for annual debt service

* Housing Stability Fund not used for upfront subsidy; loan taken out instead to cover development costs and paid off with annual debt service payments using Housing Stability Fund and rental income.

** Includes land costs.

City administration of a social housing program

- Development, operations, and maintenance of the social housing developments in our scenarios would be performed by the City and County of San Francisco. As such, a new City agency would need to be created for this purpose or the function would need to be absorbed by an existing City agency. Due to start-up costs and diseconomies of scale while the social housing program is being launched, we conclude that the function could be more efficiently performed by the Mayor's Office of Housing and Community Development, at least initially. Though the Office does not have operations and maintenance experience for housing developments, they have staff experienced in housing project development who could absorb development of social housing projects more efficiently than staff at a newly created agency when there would likely be fewer projects to occupy full-time employees' time.
- The San Francisco Local Agency Formation Commission (LAFCO) is conducting a study in the coming months analyzing the pros and cons of housing a social housing program in an existing City agency versus creating a brand-new agency. The results of this study will provide more details on the optimal setting for a social housing function.

Social housing challenges and benefits

- Due to federal and state law, subsidized housing built using federal and state funding mechanisms such as tax credits is not currently being produced in San Francisco for households earning more than 80 percent of Area Median Income, even though these households would benefit from it given San Francisco's expensive housing market. Social housing could allow for the creation of more family units (two- or three-bedrooms) than are currently being produced – our financially sustainable mixed-income social housing scenarios presented in this report include more family units than are typical for current affordable housing developments. However, by including households earning more than 80 percent of AMI, mixed-income social housing developments would be very challenging to finance using federal and state affordable housing funding sources and would likely need to rely solely on local funding sources.
- Our social housing scenarios include households that earn more than 80 percent of Area Median Income, consistent with the City's Administrative Code provisions which call for social housing projects serving households with a maximum average of 80 percent of Area Median Income. This approach improves the

financial feasibility of the projects and avoids segregating low-income households in separate buildings. All of the mixed-income social housing scenarios we present in this report have a nearly 50/50 split between household incomes above and below 80 percent of AMI.

- A City-owned and operated mixed-income social housing program would potentially provide labor and workforce benefits beyond those of current affordable housing programs. MOHCD's projects have prevailing wage, local business enterprise/small business enterprise (LBE/SBE), and local hire requirements. Since social housing projects envisioned in this report would be developed or renovated under contract to the City, we assume similar mandates would be imposed. Beyond those benefits, our analysis comparing operating costs of MOHCD affordable projects and City wages shows that an affordable housing development that employs City workers to manage and maintain the building would pay higher wages and benefits than a privately administered project.

Policy Options

The Board of Supervisors should:

1. In considering the creation of a social housing program owned and operated by the City and County of San Francisco, consider the advantages and disadvantages of creating a social housing program in an existing City department, such as the Mayor's Office of Housing and Community Development, versus creating a new City department for this purpose.
2. If supportive of creating a social housing program in San Francisco, solicit input from the Controller's Office of Public Finance and the Local Agency Formation Commission (LAFCO) on the advantages and disadvantages, timing, and relative costs of the following financing options for financing social housing projects: issuing City bonds for funding a revolving loan fund, obtaining funding from a forthcoming public bank; borrowing funds for developing projects to be paid off over time with Housing Stability Fund and/or General Fund monies, including the Housing Trust Fund; the Low-Income Housing Tax Credit (LIHTC) program; and collaborating with the Bay Area Housing Finance Authority (BAHFA) on forthcoming bond issuances.
3. Consider alternatives regarding how rents will be adjusted for social housing tenants including: adjusting rents to keep them at 25 percent of tenant

income as they increase and decrease, or 2) set a base rent when tenants occupy units and adjust it each year for cost of living adjustments regardless of changes in tenant income.

4. Consider a policy for a City social housing program that phases in different tenant income mixes over time, allowing for a higher concentration of middle income housing for tenants at or near Area Median Income in early projects to build up greater net income from the projects needed to help finance subsequent projects with more housing units for tenants in lower income brackets relative to Area Median Income.

Project Staff: Fred Brousseau and Anna Garfink

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Background

Publicly Owned Affordable Housing: Municipal vs. Social Housing

Municipal³ or public housing, defined broadly, is housing, for rent or for ownership, that is owned and/or operated by a government jurisdiction with the purpose of being affordable for low-income households. Some definitions include housing that is owned by government but operated by nonprofit organizations or owned and operated by nonprofits but financed by the government. For the purposes of this analysis, we define municipal housing as housing that is owned, operated, and/or financed by the government, in this case the City and County of San Francisco, for the purposes of being affordable to low-income households. Although San Francisco has many types of affordable housing, most affordable units in the city today are municipal housing. Public housing is specifically defined as being owned by a public entity (for San Francisco, the San Francisco Housing Authority), designated for low-income households only, funded through HUD, and subject to HUD regulations.

Social housing is a distinct housing policy term that has no universally agreed-upon definition by housing policy experts. However, in general it is used to describe housing that is developed, owned and/or operated by a government jurisdiction or an entity such as a nonprofit organization for the purposes of affordability. Social housing is not necessarily restricted to low-income households but can include households with a range of incomes, and all households can benefit from its affordability. Some social housing restricts rents for all tenants regardless of income to a fixed percentage of their income. Additionally, social housing typically involves residents in decision-making about the housing through a resident association or other similar governance mechanism. For the purposes of this report, all references to and models of social housing in San Francisco are for mixed-income social housing.

Social housing developments are defined in the City and County of San Francisco's Administrative Code⁴ as housing with an ownership interest or permanent loan and regulatory agreements by the City, a nonprofit organization, residents, or a resident association to ensure their permanent affordability. This Administrative Code section, which establishes the Housing Stability Fund, mandates that the average income of San Francisco social housing tenants must not exceed 80

³ Municipal housing is owned and operated by a city and is a type of public housing; however, the term "public housing" has very specific connotations in United States housing policy, referring to housing funded federally through HUD and subject to HUD regulations. In this report, we use the term "municipal" to describe publicly owned housing programs that differ from the historic public housing programs in the 20th century United States.

⁴ San Francisco Administrative Code 10.100-78.

percent of Area Median Income for their zip code area. The affordability requirements are to be in place for no less than 99 years, pursuant to regulatory requirements established by MOHCD.

For the purposes of our analysis, we define mixed-income social housing as being owned and operated by a government jurisdiction (the City), available to tenants with an average income no higher than 80 percent of Area Median Income, and affordable rent for all tenants due to a mix of tenant incomes that generates sufficient rental income to cover operating costs. Social housing in other countries can be financed using a mix of local, state, and federal spending (see “Social Housing Globally,” below). In the United States, existing federal and state housing subsidies can only be spent on households earning less than 80 percent of Area Median Income (AMI). Therefore, using federal or state funding to finance social housing developments that include households over 80 percent of AMI makes the tenant income mix more restrictive and financial feasibility more challenging, although not impossible.

Current Affordable Housing in San Francisco

There are several different affordable housing programs in San Francisco. Some are overseen by City agencies, including the Mayor’s Office of Housing and Community Development, while some are operated by the private market, some focus on development or acquisition of affordable units, and others focus on financial assistance for renters and homeowners.

Mayor’s Office of Housing and Community Development Programs

The Mayor’s Office of Housing and Community Development (MOHCD) currently manages or oversees several types of affordable housing programs in the City. The first is Inclusionary Units, which are deed-restricted affordable housing units in market-rate housing developments. There are over 2,100 of such units throughout the City and they serve households with incomes between 55 and 110 percent of AMI. Inclusionary Units are governed by state and local legislation, which requires developers of certain projects to include affordable units in their developments. The developers often receive additional development incentives for their buildings if they include more affordable units than the required minimum. These units are owned by the project developers or their successors.

MOHCD also manages the development of 100 percent affordable housing developments throughout the City. According to MOHCD, there are over 26,000 units of affordable housing in these developments that serve households with incomes between 30 and 80 percent of AMI. These buildings include small sites, high rises, and single room occupancy units (SROs). The buildings are typically developed by a nonprofit housing developer using a combination of City grants and loans, tax credits (through the federal Low Income Housing Tax Credit program), and private equity. These units are generally owned and operated by the nonprofit housing developer(s) that develop the property.

Additionally, MOHCD manages several financial programs to make housing more affordable in San Francisco, including loans for homebuyers and rental subsidy and voucher programs.

Homelessness and Supportive Housing and Private Market Programs

The Department of Homelessness and Supportive Housing (HSH) manages housing programs that are specifically targeted at populations experiencing homelessness. These programs include Rapid Rehousing, Coordinated Entry into shelter, Project Home Key, and permanent supportive housing.

There are also forms of affordable housing that are not managed by the City. Some privately-owned single-room occupancy units (SROs) are naturally affordable due to their size, as well as some private market units that are rent-controlled. Additionally, federal programs including the Section 8 Voucher Program and HUD Co-Ops operate in San Francisco and are included in the City's affordable housing landscape.

Exhibit 1 below summarizes the City’s current affordable housing programs.

Exhibit 1: Current Affordable Housing Programs in San Francisco

Deed Restricted Affordable Housing Type	Number of Units as of December 2023	Required AMI Range (as required for tenancy)	Average AMI Range (actual average range in building)	Funding Sources
100% Affordable Multifamily	26,101	15-120% of AMI	50-80% of AMI	Federal tax credits; state grants; local bonds; local funding programs; local/federal vouchers ^a
Inclusionary Rental	2,398	30-150% of AMI	50-60% of AMI	Private market construction
Inclusionary Ownership	1,431	50-150% of AMI	90-110% of AMI	Private market construction
Mixed Income	1,688	60-110% of AMI	80-100% of AMI	Development agreements; local programs
<i>Total Affordable</i>	<i>31,618</i>			

Source: MOHCD

^aAccording to MOHCD, on average new construction 100% Affordable Multifamily developments use five to eight funding sources with two-thirds of funding from non-local sources.

Social Housing Globally

Social housing is not common in the United States but has existed in cities around the world for many decades. Singapore and Vienna, Austria both contain extensive social housing. The following sections briefly outline social housing policies in these two places.

Singapore

Singapore has over one million housing units that were developed by the government and sold at a subsidized price. These developments house over 80 percent of the population and over 90 percent of the units are resident-owned.⁵ Singapore first began its current housing program, known locally today as the “HDB (Housing and Development Board) flats,” in the 1960s. The housing developments took the form of towns that ringed the outer perimeter of the island.

⁵ “Public Housing – A Singapore Icon,” Singapore Housing and Development Board, <https://www.hdb.gov.sg/about-us/our-role/public-housing-a-singapore-icon>

These towns include commercial corridors and public spaces as well as multi-story housing developments. The government encourages families to live in them by prioritizing young couples and families in the application process.⁶ The government also maintains firm control over who can live in the units to achieve a mixed ethnic balance between Singapore's main ethnic groups: Chinese, Malay, Indian, as well as an "Other" category. There are minimum levels of occupancy of each ethnic group in each development to ensure racial enclaves or segregation do not occur.

Singapore's social housing units are sold at a subsidized price to buyers on 99-year leases, with buyers prohibited from selling them for the first five years. However, once the five-year period is over, the residents are permitted to sell them at market value and, because Singapore's Housing Development Board puts effort into maintaining the buildings, these units can hold significant real estate value. For example, some brand-new units that were sold in 2009 resold for twice what the owners paid for them just five years later.⁷

To demonstrate how much Singapore has invested in social housing, in FY 2021-22, Singapore's Ministry of National Development reported that the Housing and Development Board sold 13,506 subsidized units directly to buyers, and those units cost the Housing and Development Board \$5.3 billion Singapore dollars, equivalent to \$3.9 billion US dollars.⁸

Vienna, Austria

The city of Vienna, Austria also has a social housing program that many housing experts consider successful. Vienna first began constructing social housing nearly a century ago and now owns and rents approximately 220,000 subsidized rental units. Another approximately 200,000 units of subsidized housing receive public subsidies but are constructed, owned, and rented out by private limited-profit organizations in partnership with the city. The city provides low interest construction loans to these public-private partnership organizations which operate with restrictions on rent, tenant incomes, and operating costs under terms established by the city and the national Non-Profit Housing Act. Together these two groups of housing units make up approximately half the city's housing stock.⁹ The two types of subsidized housing developments

⁶ "Singapore Public Housing – Envisioning a State of Resilience," Kian Goh, Resilient Cities Housing Initiative at MIT, <https://rchi.mit.edu/singapore>

⁷ "Why Singapore Has One of the Highest Home Ownership Rates," Adam Majendie, Bloomberg City Lab, <https://www.bloomberg.com/news/articles/2020-07-08/behind-the-design-of-singapore-s-low-cost-housing>

⁸ "Media Statement on HDB's Pricing Approach and Development Costs for BTO Flats," Ministry of National Development, December 7, 2022, <https://www.mnd.gov.sg/newsroom/press-releases/view/media-statement-on-hdb-s-pricing-approach-and-development-costs-for-bto-flats>

⁹ "Vienna's Unique Social Housing Program," HUD PD&R Edge, https://www.huduser.gov/portal/pdredge/pdr_edge_featd_article_011314.html

are spread throughout the city including in highly desirable neighborhoods and must meet certain architectural and livability standards that make them sought-after places to live.

Vienna's social housing model is different than Singapore's. Although most units were built and are owned by the Viennese government, since the 1980s, most units have been developed through public-private partnerships. A nonprofit organization affiliated with the city created during the same period operates a land bank, purchasing properties to be developed for social housing. The organization solicits competitive proposals for larger developments and selects a private developer whose proposal offers the most benefits to the city and who is then allowed to build and own the units subject to city housing and design regulations. The city of Vienna requires the private developers to reserve at least half of the units for low-income residents and imposes rent restrictions on all the units so that they are affordable to all tenants no matter their income. The maximum income restriction for Vienna's social housing is relatively high, so most Vienna residents qualify for it, and once a resident is living in the social housing they are never required to leave, even if their income changes. This leads many of the social housing developments to be mixed-income, with many middle income as well as lower income household tenants.¹⁰

Vienna is still building new social housing complexes today. To demonstrate how much Vienna has invested, a published interview with Vienna's Deputy Mayor and Executive City Councilor for Housing reported that Vienna's annual housing budget is about \$700 million, including costs of maintaining existing housing and building new units, of which about \$530 million comes from the federal government.¹¹

In the United States, Montgomery County, Maryland, sponsors a type of social housing with its Housing Opportunities Commission. This public entity invests in privately constructed housing with public funds, assumes ownership, and subsidizes rents for tenants under a certain income level.

¹⁰ "How Vienna took the stigma out of social housing," Aitor Hernández-Morales, Politico, June 30, 2022, <https://www.politico.eu/article/vienna-social-housing-architecture-austria-stigma/>

¹¹ "Vienna's Affordable Housing Paradise," Adam Forrest, Huffington Post, July 19, 2018, https://www.huffpost.com/entry/vienna-affordable-housing-paradise_n_5b4e0b12e4b0b15aba88c7b0

Social Housing in California

Policymakers at the state level have made recent efforts to enact social housing in California. Three recent proposed pieces of legislation each address different aspects of social housing. First, Senate Bill 555 (Aisha Wahab), the California Stable Affordable Housing Act, defines social housing and sets goals for the creation of subsidized social housing units in California. It also creates a Social Housing Fund and directs the Department of Housing and Community Development to develop a plan to feasibly implement social housing in the state. The bill was signed into law by Governor Newsom in October 2023.

Next, Assembly Bill 309 (Alex Lee), the California Social Housing Act, would have established the California Housing Authority to construct and lease social housing. It would also have established a revolving loan fund and directed the legislature to issue general obligation bonds to fund the social housing program. This bill was vetoed by Governor Newsom in October 2023.

Last, Senate Bill 584 (Monique Limon), the Laborforce Housing Financing Act, would impose a 15 percent tax on short-term rentals (such as Airbnb rentals) to fund low- and middle-income housing. It was estimated that the bill would generate \$150 million annually. In June 2023, the bill's author announced she was holding the bill for another year.

Social Housing Benefits and Challenges

A social housing program in San Francisco could fill gaps in the City's current affordable housing market though it would also pose challenges that are not present in existing affordable housing programs. Primarily, social housing would enable the City to build, own, and manage subsidized housing for both middle- and low-income households. Due to federal and state law, subsidized housing built using federal and state funding mechanisms such as tax credits is not currently being produced in San Francisco for households earning more than 80 percent of Area Median Income, even though these households would benefit from it given San Francisco's expensive housing market. Additionally, social housing could allow for the creation of more family units (two- or three-bedrooms) than are currently being produced – our social housing scenarios below include more family units than are typical for current affordable housing developments.

Furthermore, including households that earn more than 80 percent of Area Median Income in social housing projects leads to mixed-income developments, which has a number of benefits. They improve the financial feasibility of the project and avoid segregating low-income households in separate buildings or separate neighborhoods because the developments contain a relatively even mix of AMI levels. Inclusionary affordable housing units are also in mixed income buildings, but typically only about 20 to 30 percent of the building is reserved for low-income

households. All the social housing scenarios we present below have a nearly 50/50 split between household incomes above and below 80 percent of AMI.

A City-owned and operated social housing program would potentially provide labor and workforce benefits beyond current affordable housing programs. MOHCD's projects have prevailing wage, local business enterprise/small business enterprise (LBE/SBE), and local hire requirements. Since social housing projects envisioned in this report would be developed or renovated under contract to the City, we assume similar mandates would be imposed. Beyond those benefits, our analysis comparing operating costs of MOHCD affordable projects and City wages (see Appendix II) shows that an affordable housing development that employs City workers to manage and maintain the building would pay higher wages and benefits.

However, there would also be drawbacks to a City-owned and operated social housing program. Financially, social housing construction would need to be subsidized by local dollars to a greater extent than traditional affordable housing programs in the City. Current MOHCD affordable housing projects use local funds to leverage state and federal dollars, which allow local subsidies to go farther for a project. Social housing could not leverage these other funding options, which restricts the amount of funding available for the program overall unless additional local sources are dedicated.

Additionally, MOHCD staff report that they have had challenges leasing deed-restricted affordable units to households earning close to 80 percent of AMI. According to MOHCD staff, households with incomes near 80 percent of AMI can often afford market rate apartments and choose market rate housing rather than deed-restricted affordable housing because it is easier than going through the lengthy and time-consuming requirements of applying for deed-restricted affordable units.

In the scenarios we present in this report, nearly all households of all sizes and income levels would be paying less in rent than average rents in San Francisco according to Zillow's rental data for 2023. However, it is true that households in higher income brackets could find deals on market rate rentals in certain neighborhoods that have rents below the average, and below what they would pay in our social housing models. The social housing scenarios we present absolutely must contain households in higher income brackets in order to be financially feasible, so being unable to attract higher income residents could be a challenge for the program.

Funding for Social Housing in San Francisco

There have been local efforts to implement social housing in the City and County of San Francisco. In November 2020 San Francisco voters passed Proposition I, a ballot measure that increased the transfer tax on real estate sales with a value of \$10 million or more and on leases of 35 years or more. In the same year, the Board of Supervisors approved creation of the Housing Stability Fund, a special fund created to hold appropriated and donated funds for the purpose of acquiring, developing, and operating social housing developments.¹² In addition, the Board of Supervisors that year passed a resolution stating its intent that Proposition I revenues be allocated to rent relief and social housing.¹³ One of the potential sources for funding the Housing Stability Fund is Proposition I-generated revenues. Proposition I was placed on the ballot as a general tax with a simple majority passage threshold instead of the two-thirds threshold required for a special tax.¹⁴ As a result, the revenue generated is not restricted in purpose; it is allocated to the General Fund and can be used for any general government purpose (including funding the Housing Stability Fund).

The Housing Stability Fund Oversight Board, an advisory board that provides annual recommendations to the Board of Supervisors and Mayor on the fund's use recommended allocating \$60 million out of a projected \$85 million in Proposition I revenue toward social housing in FY 2023-24. However, funds have instead been mostly appropriated for traditional affordable housing projects, according to MOHCD. Our model assumes that City funds of up to \$62 million would be made available for up-front subsidies for social housing purposes from the Housing Stability Fund or other sources. These funds could be linked to Proposition I revenues generated, or other General Fund appropriations approved by the Board of Supervisors.

The City's real property transfer tax revenue was bolstered significantly in FY 2020-21 subsequent to the passage of Proposition I in November 2020. That year, total real property transfer tax revenues were \$344.7 million, or \$206.7 million more than the \$138 million budgeted. A larger increase to \$520.3 million occurred the following year in FY 2021-22 due to the combination of the new Proposition I tax rate for high value buildings and the transfer of some unusually costly commercial buildings that year. However, this level of increase was not sustained in subsequent years.

¹² See Administrative Code Section 10.100-78.

¹³ Resolution 365-20, adopted by the Board of Supervisors August 11, 2020.

¹⁴ Section 4 of the California Constitution provides that cities, counties, and special districts can impose special taxes with a two-thirds vote of qualified electors, except for ad valorem taxes on real property or a transaction tax or sales tax on the sale of real property.

The COVID-19 pandemic resulted in a reduction in transfers of commercial buildings and their value due to a drastic decline in office workers working full-time in office buildings downtown and elsewhere in the City: for FY 2023-24, real property transfer tax revenue was only \$177.7 million. While this reduction could reduce funds available for mixed-income social housing projects in the short-term, the City forecasts increased revenue in the coming years, with increases every year starting in FY 2024-25 and ending with a \$365 million forecast for FY 2027-28.¹⁵ The effect of Proposition I on total real property transfer tax revenue is estimated by the Controller to be approximately \$45.7 million and \$57 million (after baselines) in FY 2024-25 and 2025-26, respectively, or \$102.7 million for the two years.¹⁶ The City's Housing Stability Fund Oversight Board reports that Proposition I generated \$324 million in additional revenue for the City for the three years and two months between January 1, 2021 and March 31, 2024.¹⁷

Another potential funding source for upfront mixed income social housing development costs is the proposed public bank of San Francisco, with loans paid off from a combination of rental income and the Housing Stability Fund. The San Francisco Local Agency Formation Commission (LAFCO) has been charged by the Board of Supervisors with studying a public bank for the City. In September 2023, the Board of Supervisors approved the proposed plans for the bank, which involve a phased approach. The first phase would create a non-depository Municipal Financial Corporation, and the second phase would be to convert that into a public bank after three to five years. As of December 2023, City plans call for the Municipal Financial Corporation to serve as San Francisco's green bank, using funds to make and incentivize green investments that could include affordable housing. The Inflation Reduction Act passed by Congress in 2022 provides grant funding for green bank lending.

Additional potential funding sources for social housing include the General Fund, a revolving loan fund that could be created by the City using bond proceeds, the City's Housing Trust Fund, and the Bay Area Housing Finance Authority (BAHFA), a regional public agency created by the state legislature that is likely sponsoring a bond measure for future ballots in Bay Area jurisdictions and will possibly provide \$10-20 billion in funds to be used for affordable housing by jurisdictions throughout the Bay Area, including the City and County of San Francisco.

¹⁵ All actual revenues from City and County of San Francisco Annual Comprehensive Financial Reports for the respective years. Forecasts from *Budget Outlook Update* (March Joint Report) prepared by the Budget and Legislative Analyst, the Mayor's Budget Office, and the Controller, March 29, 2024.

¹⁶ FY 2024-25 and FY 2025-25 Revenue Letter, Office of the San Francisco Controller, June 10, 2024.

¹⁷ Assessing the Impact of the 2020 Proposition I: Four Years of New Revenue and Affordable Housing Initiatives, Housing Stability Oversight Board, June 12, 2024.

BAHFA is also currently developing a number of programs intended to fund affordable housing solutions.

The City's Housing Trust Fund is an annual General Fund set-aside created in 2012 through a voter-approved initiative. According to the Controller's Revenue Letter, \$44.5 million was originally budgeted for this fund in FY 2023-24 and the proposed budgets for FYs 2024-25 and 2025-25 are \$47.3 and \$49.0 million, respectively. One of its purposes, as codified in the City Charter, is to support "creation, acquisition, and rehabilitation of rental and ownership housing affordable to Households earning up to 120% of Area Median Income including, without limitations, the acquisition of land for such purpose."¹⁸ While portions of the fund are earmarked for specific uses in the Charter, the fund's overall purpose appears consistent with the tenets of social housing and should be explored as a possible funding source. Further, our social housing models detailed below all assume tenants with incomes at or under 120 percent of Area Median Income.

Another potential funding source for ongoing operating support of mixed-income social housing is federal Faircloth-to-RAD subsidies available for projects of this nature through the City's Housing Authority. This funding source is intended to eliminate hurdles associated with adding or rehabilitating public housing units (limited by the federal Faircloth Amendment of 1999), but subsidies associated with the federal Rental Assistance Demonstration (RAD) program can now be used for public housing units or other newly constructed affordable housing being constructed by entities within the housing authority's jurisdiction. Use of this source would allow for ongoing unit-based subsidies for at least some units in mixed income social housing projects owned and operated by the City and County of San Francisco, thus providing more opportunity for lower income tenants. The San Francisco Housing Authority has reserved funding for 3,667 units under this program some of which could be made available for mixed-income social housing projects. This source could potentially also be available for acquisition or rehabilitation of social housing projects if the City pursues those.

Lastly, the use of the Low-Income Housing Tax Credit Program (LIHTC), a major federal affordable housing finance program, could potentially be used to finance social housing in San Francisco, though its use would be complicated. According to its enabling legislation, LIHTC funding can only be used to finance units that are restricted to households earning 80 percent of AMI or less. All the scenarios we model for social housing in San Francisco in this report need to have households earning over 80 percent of AMI in order to be financially feasible. According to MOHCD, it is possible for LIHTC financing to be applied only to the units in a development that are restricted

¹⁸ San Francisco City Charter Section 16.110.

to households earning 80 percent of AMI or less. This would present an administrative burden on the developer to ensure the project's units are kept completely separate in two financial and physical groups: one for those under 80 percent of AMI and one for those over. The complex budgeting and planning required to accomplish this could make using LIHTC for projects that include households earning more than 80 percent of AMI unappealing to housing developers. However, we include it here because it is technically achievable, particularly for social housing developments able to achieve lower development and/or operating costs than assumed in our scenarios below

Social Housing Models for San Francisco

To fulfill the request for this report, we modeled six mixed-income social housing development scenarios in San Francisco¹⁹ to determine under what circumstances, if any, mixed-income social housing could be financially sustainable. We varied assumptions for six City-owned and operated multifamily housing projects to determine the mix of tenant incomes needed to cover annual operating and maintenance costs for the projects, and if these costs would be covered capping rents at 25 percent of tenant income. We then estimated the combination of rental income, loans, and subsidies needed to cover the costs of development and related debt service and ongoing maintenance, operations, and capital costs for a new multifamily housing development. We did not model acquisition and renovation of an existing building, but that is also an option for social housing developments.

With our sets of assumptions detailed below, we found that five scenarios would be financially sustainable, but a sixth scenario would not be. In order to be feasible, each scenario would only be able to accommodate marginal changes to each variable or would need compensating offsets between variables (e.g., costs due to a higher interest rate loan could be offset by a higher income mix of tenants). City managers in charge of the social housing program would need to monitor the program closely, especially operating costs and tenants' incomes, to ensure the balance that leads to financial sustainability.

Our scenarios are based on estimates of construction and operating costs that are likely to change in the future. The scenarios should be used as a model of what could be possible for a social housing development in San Francisco, rather than a guide on what is guaranteed to work.

¹⁹ We used a model of a social housing development created by the San Francisco Berniecrats Housing Committee for the SF Community Housing Act as a starting point and updated their datapoints and variables to create our own models. The SF Community Housing Act is the name of an organization of housing activists that have been advocating for social housing in San Francisco since 2017.

To estimate development and operating and maintenance costs, we relied on data from pro formas prepared by the Mayor's Office of Housing and Community Development for ten projects in pre-development or under construction in 2021. We selected 2021 as our base year not only because there were multiple pro formas for MOHCD projects from that year but also because we obtained data on multifamily housing project operating and maintenance costs for the same year prepared by the National Apartment Association.

While using 2021 as our cost basis year gave us consistent robust baseline data from the same year, it presented the risk of these results no longer being valid if construction or other costs increased significantly in the intervening years. Since we found that social housing projects could be financially sustainable based on 2021 baseline cost data, we wanted assurance that those conclusions would not be invalidated due to cost increases, particularly for construction costs which MOHCD reported had increased substantially between 2021 and 2024.

To test the impact of increases in construction or other costs between 2021 and 2024 on social housing financial feasibility and sustainability, we prepared one scenario (Scenario F) based on development and operating costs from 2023 and 2024 instead of 2021 with tenant incomes adjusted to 2024 levels. The quantity and quality of baseline data for the more recent years was not as strong as for 2021 but the results do show that social housing projects would still be financially sustainable with the right mix of tenant incomes, rent revenues, subsidies, and interest rates.

Model Variables

The variables included in our scenarios are:

- **Number, type, and size of units:** The number of units in a development, as well as how many bedrooms (studios for single occupancy versus two- or three-bedroom units for multiple person occupancy or families), and each unit's square footage all affect the development and operating costs of new housing. Larger developments cost more to build and operate but can also yield larger returns. Our assumptions about unit quantities, type, and size are detailed in each of our six scenarios presented below.
- **Tenant incomes:** For five of our six models, we used **2021 Area Median Income (AMI) for the San Francisco-Oakland-Hayward Metropolitan Area** data to capture residents' incomes, all set at between zero and 120 percent of AMI, because social housing aims to provide affordable housing for moderate-income households as well as low-income households. For our one scenario with more current costs (Scenario F), we used **2024 AMI for the San Francisco-Oakland-Hayward Metropolitan area**. For all scenarios, we set the maximum at 120 percent of AMI because that was where we found rents started nearing market rate rents in San Francisco (although social housing could include

households earning higher than 120 percent of AMI in other markets). As mentioned above, the City's Administrative Code requires that tenant incomes in social housing developments *average* 80 percent of Area Median Income for the zip code area in which the development is located. Information is provided below about the distribution of tenant incomes assumed in each of our six scenarios.

- **Rental controls:** We assumed rent would be capped at **25 percent of tenants' household incomes**. We also assumed that there would be a five percent vacancy rate in any given social housing development for all scenarios, so gross rent would be five percent less than a scenario that assumed no vacancies.²⁰ Although our model is fixed and does not show changes over time, we assume that rental income would change as tenants' incomes change to stay fixed at 25 percent of their current income, even as their incomes increase or decrease in the future. This poses an important challenge for the City, which would have to constantly monitor tenants' incomes to ensure the building is able to self-sustain its operating costs. Over time, we assume tenant configurations will change and incomes will increase or decrease due to factors such as promotions, job losses, death, illness, and others. The City's social housing managers will need to forecast and account for these types of changes by building up reserves when possible to help withstand any downturns in tenant rental income. Another option would be to use the Vienna model, with rents constant after a tenant occupies a unit, with cost of living adjustments annually, but no changes in rent based on changes in the tenant's income.
- **Development costs:** Total development costs for a housing development include acquisition costs, hard construction costs, soft construction costs such as architecture and engineering services, and land costs in instances when land for affordable housing is not available from a public agency and instead must be purchased. These costs will vary depending on many factors, including the size and type of project, the project's location, and whether the project is new construction or rehabilitation of an existing building. Based on costs included in **MOHCD pro formas** for affordable housing projects in pre-development or under construction in 2021, development costs for our scenarios using data from 2021 range from \$493,756 to \$632,368 per unit. To estimate 2024 costs for one scenario we used the **Engineering News Report construction cost inflation index for San Francisco**. The 2024 costs are 18.5 percent higher than the 2021 costs. We calculated development costs per square foot, so costs square linearly with unit size. **See Appendix I** for details on how we estimated the total development cost(s) for our scenarios.
- **Operating costs:** Operating costs for any housing development include salaries and benefits for employees (front desk staff, maintenance staff, social services staff if

²⁰ According to MOHCD, assuming five percent vacancy is common practice for affordable housing developments.

relevant, etc.), insurance, owner-paid utilities, costs for contracted services, and costs for repairs and maintenance. They also include capital costs of more major one-time or periodic renovations. Property tax costs are not included in our scenarios, assuming that the social housing projects would be built by the municipality of San Francisco. Importantly, our operating cost model includes some on-site supportive services, such as social workers, that are common for affordable housing developments that serve very-low-income households. We calculated operating costs per square foot for five of our six scenarios, so costs square linearly with unit size. Unfortunately, this detailed costs data per square foot was not available for our scenario in which we updated costs to more current amounts (Scenario F). Instead, we used the more limited operating costs per unit since this is all that was available for more recent data. While it still provides a reasonable estimate, it is less robust than the cost data for 2021 that we used in our other scenarios. **See Appendix I** for more details on how we estimated operating costs for our scenarios.

- **Project subsidy:** As with development of all multifamily housing, social housing developments require substantial investments for construction. Instead of traditional loans and equity investments associated with private sector developments, government subsidies would be needed to construct affordable social housing. In their Affordable Multifamily Housing New Construction Cost Comparison documentation detailing their costs for affordable housing projects, MOHCD estimates that the average per-unit local subsidy (excluding state and federal funds) for affordable housing developments in San Francisco in 2021 was just over \$213,000, but we found that higher amounts of per-unit subsidies would be necessary in order to ensure the financial feasibility of our scenarios.

Our per-unit subsidy assumptions for both our 2021 and 2024 models range from \$430,000 to \$1,287,106 per unit, as detailed in our six scenarios described below. Four of the six scenarios assume that a lump sum amount would be provided for development costs upfront. However, our fifth and sixth scenarios, with the higher per unit subsidies, assume that the subsidy would be provided in smaller annual increments over multiple years to pay off the debt incurred for development costs. Though this would cost more in the long run after interest costs are included, it would provide financial flexibility by providing more funds for multiple projects in the early years of the social housing program with source funds replenished over time. In all cases, the City would benefit from its investments through these subsidies by being the owner of social housing developments.

- The project subsidy would ideally need to come from local funds, such as **the City's Housing Stability Fund**, funded by Proposition I revenue or a General Fund appropriation, as discussed above, because federal subsidies are not available to affordable housing units reserved for households with incomes over 80 percent of AMI. The scenarios we present below show the two separate ways to utilize this fund discussed above. Using the

Housing Stability Fund balance as a working parameter (and assuming it will grow over time), we attempted to keep total subsidy costs per project equal to or less than \$62 million per project when paid upfront in a lump sum.

- Total upfront subsidy costs for our scenario developments range from \$29.4 million to \$61.8 million. Subsidies at this level will mean that rental income in five of our six social housing project scenarios (all but Scenario E) will be sufficient to cover operating costs and a portion of debt service on loans for development costs not covered by the subsidy.
- Another way to utilize the Housing Stability Fund would be for the City to issue **bonds** or take out a loan to cover the total cost of development and use the Fund to pay off this debt over time, as mentioned above. For example, one of our scenarios (Scenario B) shows that borrowing to cover development costs for a certain sized social housing development would require the City to pay \$2.1 million annually over 55 years to pay off the borrowed amount. Annual payments could be made from the Housing Stability Fund rather than using the Fund for upfront one-time lump sum payments. Although this would cost more in the long term, it would have the cash flow benefit of not depleting most of the Housing Stability Fund after a single project or two and thus could enable the City to pursue multiple social housing developments at once with a combination of the Housing Stability Fund and future net operating income. Regardless, if the Housing Stability Fund balance does not increase or is not replenished, the City will need to explore other options for subsidizing the social housing units.
- **Financing:** Variables considered in our scenarios include **interest rates, loan terms (55-year and 99-year), and debt service coverage ratios.**²¹ In some scenarios, we assume low interest loan rates of between 1 and 3 percent from either a public bank (which has not been established by the City but for which planning documents have been prepared), or a revolving loan fund that the City could establish for social housing funded initially by bonds. For one scenario, we assume neither of these options will be possible and a commercial loan would need to be obtained, with an assumed interest rate of 8 percent.

Example Scenarios

Our model yielded several project scenarios that would be financially feasible and self-sustaining. We also included a scenario (Scenario E) that would not be financially self-sustainable due to its mix of tenant incomes, household sizes, and a market interest rate on its development loan. This scenario demonstrates that if the City were to construct and operate social housing developments, the mix of housing units and tenant incomes would have to be carefully managed,

²¹ Debt service coverage ratio (DSCR) is the ratio of net operating income to debt service obligations. DSCR is a measure used in affordable housing developments to show that a project will have enough cash each year to pay off the debt taken on to finance the project's construction. To calculate the DSCR for our models, we divided net operating revenue by annual debt payments.

along with normal controls over operating costs, to ensure the ongoing financial feasibility of these housing developments.

A summary of key variables in each scenario is shown below in Exhibit 2, and a detailed comparison of all key variables for the example projects is presented in Appendix II. As can be seen, Scenario E, which is not financially sustainable, has a market rate loan with an interest rate of 8 percent that pushes its debt service costs up substantially compared to the other scenarios. We kept total upfront development subsidies for all scenarios under \$62 million. Annual net operating income in each scenario where an up-front subsidy is provided is positive which would minimize subsidies while keeping the housing affordable.

Exhibit 2: Summary of Key Variables, Scenarios A-F

	Scenario A	Scenario B*	Scenario C	Scenario D**	Scenario E	Scenario F* (escalated to 2024 costs)
Financially Self-Sustaining?	Yes	Yes	Yes	Yes	No	Yes
Number of Units	60	136	136	136	136	136
Annual Rental Income	\$1,171,837	\$2,593,939	\$2,593,939	\$2,593,939	\$2,593,939	\$3,373,367
Annual Operating Costs	\$1,008,014	\$2,181,746	\$2,181,746	\$2,181,746	\$2,181,746	\$3,312,552
Annual Net Operating Income	\$163,823	\$412,193	\$412,193	\$412,193	\$412,193	\$60,815
Total Development Costs	\$37,942,100	\$67,150,850	\$67,150,850	\$70,652,850	\$67,150,850	\$87,309,450
Development Costs/Unit	\$632,368	\$493,756	\$493,756	\$519,506	\$493,756	\$641,981
Total Upfront Development Subsidy	\$29,400,000	\$0	\$58,480,000	\$61,880,000	\$58,480,000	\$0
Development Subsidy/Unit	\$490,000	\$842,150*	\$430,000	\$455,000	\$430,000	\$1,287,106*
Construction Loan Amount	\$8,542,100	\$67,150,850	\$8,670,850	\$8,772,850	\$8,670,850	\$87,309,450
Annual Debt Service	\$135,962	\$2,494,601	\$322,115	\$325,904	\$702,418	\$3,243,477
Net Income after Debt Service	\$27,861	(\$2,082,407)*	\$90,078	\$86,289	(\$290,225)	(\$3,182,662)*
Feasible?	YES	YES, with \$2.1 million annual subsidy	YES	YES	NO	YES, with \$3.2 million annual subsidy
Loan Terms	1% interest, 99-year	3% interest, 55-year	3% interest, 55-year	3% interest, 55-year	8% interest, 55-year	3% interest, 55-year
Notes	Subsidy: upfront lump sum	Subsidy: provided over time for annual debt service	Subsidy: upfront lump sum	Subsidy: upfront lump sum. Land included in costs.	Subsidy: upfront lump sum	Subsidy: provided over time for annual debt service

* Housing Stability Fund not used for upfront subsidy; loan taken out instead to cover development costs and paid off with annual debt service payments of \$2.5 million using Housing Stability Fund and rental income.

** Includes land costs.

The following sections provide the details of the example projects and factors that go into making them feasible or not.

Scenario A: Financially sustainable 60-unit development with a 1 percent interest, 99-year term development loan. Tenants pay 25 percent of their income on rent. Financially feasible under the following assumptions:

- A five percent average vacancy rate for the development;
- Households earn exactly the median of their AMI bracket;
- Development costs exclude land (i.e., land is already owned by the City);
- A \$490,000 development subsidy would be provided for each unit, or \$29.4 million in total for 60 units; and
- A one percent interest, 99-year loan from sources such as a forthcoming public bank of San Francisco or a revolving loan fund to be created and financed initially by City bonds.

These conditions yield a debt service coverage ratio (DSCR)²² of 1.2 and net income after debt service of \$27,861. The per-unit subsidy of \$490,000 reduces the amount that the City would need to borrow for construction so that the operating revenue of the development is enough to cover the debt service. Exhibit 3 below breaks down Scenario A in terms of number and size of units, tenant income brackets, development costs, operating costs, rental revenues, and annual payments.

²² Debt service coverage ratio (DSCR), in very simple terms, is the ratio of net operating income to debt service obligations. DSCR is used in affordable housing developments to ensure that a project will have enough cash each year to pay off the debt taken on to finance the project's construction. To calculate the DSCR for our models, we divided the net operating revenue by the annual debt payments.

Exhibit 3: Scenario A Unit Distribution by Household Size and Unit Type

Household Size	Unit Type	Number of Units 0-30% AMI (Median: 15%)	Number of Units 30-50% AMI (Median: 40%)	Number of Units 50-80% AMI (Median: 65%)	Number of Units 80-100% AMI (Median: 90%)	Number of Units 100-120% AMI (Median: 110%)	Total Units
1	Studio (400 sq ft)	1	1	3	5	5	15
2	1-bed (550 sq ft)	1	1	3	5	5	15
3	2-bed (800 sq ft)	3	3	3	5	5	19
5	3-bed (1,000 sq ft)	3	3	3	1	1	11
<i>Total</i>	40,450 sq. ft.	8	8	12	16	16	60

Scenario A Operations and Development Costs

Unit Type	Number of Units	Operations			Development	
		Annual Rent per Unit Type (5% vacancy)	Annual Operating Costs per Unit Type ^a	Annual Net Operating Income/Unit Type	Total Development Costs per Unit Type ^b	Total Development Costs Minus \$490,000 Subsidy per Unit (loan amount needed)
Studio	15	\$276,890	\$149,520	\$127,369	\$5,628,000	(\$1,722,000)
1-bed	15	\$316,314	\$205,590	\$110,724	\$7,738,500	\$388,500
2-bed	19	\$387,291	\$378,784	\$8,507	\$14,257,600	\$4,947,600
3-bed	11	\$191,342	\$274,120	(\$82,778)	\$10,318,000	\$4,928,000
<i>Total</i>	60	\$1,171,837	\$1,008,014	\$163,823	\$37,942,100	\$8,542,100

Scenario A Debt Details

Loan amount	\$8,542,100
Interest Rate	1.0%
Term	99 years
Annual Debt Service	\$135,962
Net Income after Debt Service	\$27,861
Debt Service Coverage Ratio	1.2

Source: BLA Analysis

^a Operating costs used for this model are \$24.92 per square foot

^b Total development costs used for this model are \$938 per square foot

This scenario assumes that annual operating costs are \$24.92 per square foot and total development costs, *excluding land*, are \$938 per square foot, or on average \$632,368 per unit (see Appendix I for more details on how we estimated operating and development costs). The total rental revenues are \$1,171,837 and net revenues after operating costs, before debt service, are \$163,823. The net revenue is thus enough to meet the annual debt service obligations of \$135,962 to finance the development of the project and still have remaining funds. This scenario is self-sustaining and financially feasible.

This scenario has some limitations. It is a smaller building (60 units) with a relatively high total development cost per square foot and per unit, and it requires a very low interest rate for the annual debt service payments to be feasible given the relatively lower net operating revenue. The other scenarios included in this report assume larger buildings – 136 units each– which helps reduce development costs while supplying more housing. A comparison of all key variables for the example projects is presented in Appendix II.

Scenario B: Financially sustainable 136-unit development, with a 3 percent interest, 55-year loan on development costs and an annual \$2.1 million operating subsidy to cover debt service on the project's development cost loan in lieu of a lump sum upfront subsidy. Households pay 25 percent of their income on rent. Financially self-sustainable under the following assumptions. May be preferable to Scenarios C-D due to ability to finance multiple projects at once given the much lower initial cost (\$2.1 million per year for 55 years versus nearly \$62 million up-front).

- A five percent average vacancy rate for the development;
- Households earn exactly the median of their AMI bracket;
- Development costs exclude land (i.e., land is already owned by the City);
- An upfront lump sum development subsidy would not be provided; instead, a \$2.1 million subsidy would be provided annually to offset debt service costs; and
- A three percent interest, 55-year loan for development costs from either a forthcoming public bank of San Francisco or a revolving loan fund to be created and financed initially by City bonds.

Exhibit 4 below breaks down Scenario B in terms of development costs, operating costs, rental revenues, and annual debt service payments.

Exhibit 4: Scenario B Income Distribution by Household Size and Unit Type

Household Size	Unit Type	Number of Units 0-30% AMI (Median: 15%)	Number of Units 30-50% AMI (Median: 40%)	Number of Units 50-80% AMI (Median: 65%)	Number of Units 80-100% AMI (Median: 90%)	Number of Units 100-120% AMI (Median: 110%)	Total Units
1	Studio (400 sq ft)	2	2	7	15	15	41
2	1-bed (550 sq ft)	2	2	7	15	15	41
3	2-bed (800 sq ft)	7	7	7	3	3	27
5	3-bed (1,000 sq ft)	7	7	7	3	3	27
<i>Total</i>	<i>87,550 sq. ft.</i>	<i>18</i>	<i>18</i>	<i>28</i>	<i>36</i>	<i>36</i>	<i>136</i>

Scenario B Operations and Development Costs

Unit Type	Number of Units	Operations			Development	
		Annual Rent per Unit Type (5% vacancy)	Annual Operating Costs per Unit Type ^a	Annual Net Operating Income/Unit Type	Total Development Costs per Unit Type ^b (loan amount needed)	<i>No lump sum upfront subsidy for this scenario.</i>
Studio	41	\$789,699	\$408,688	\$381,011	\$12,578,000	
1-bed	41	\$902,132	\$561,946	\$340,186	\$17,295,850	
2-bed	27	\$410,091	\$538,272	(\$128,181)	\$16,567,200	
3-bed	27	\$491,017	\$672,840	(\$180,823)	\$20,709,000	
Total	136	\$2,593,939	\$2,181,746	\$412,193	\$67,150,850	

Scenario B Debt Details

Loan amount	\$67,150,850
Interest Rate	3.0%
Term	55 years
Annual Debt Service	\$2,494,601
Net Income after Debt Service	(\$2,082,407)
Annual Operating Subsidy*	\$2,082,407

Source: BLA analysis.

*Note: This amount represents an annual debt service, net of funds available from the development's net operating income.

^a Operating costs used for this model are \$24.92 per square foot

^b Total development costs used for this model are \$767 per square foot

Scenario B shows what could be feasible if the City takes out a loan or issues bonds for the entire \$67.2 million development cost and pays it off at low interest over a 55-year term. The City would need to subsidize the annual payments for the loan at approximately \$2.1 million annually from the Housing Stability Fund or another source, amounting to a total of \$115.5 million over the 55-year period of the loan. This is more expensive in the long run than if the City invests the majority of the development costs into the project up-front as a per-unit subsidy, but it provides more financial flexibility to the City.

As shown below in the details for each scenario, the total subsidies are \$58.5 and \$61.9 million for our three other 136 unit scenarios where the subsidy would be provided upfront (Scenarios C, D, and E). However, the longer-term approach incorporated in Scenarios B and F would enable the City to potentially develop multiple social housing projects simultaneously by only using \$2.1 million per year from the Housing Stability Fund. This approach would make funding for other similarly structured projects available from expected growth in the Fund and project rental

income over time. The distribution of household incomes and sizes are the same in this Scenario B as in Scenario C below, as are the annual rental revenues, operating costs, and development costs.

Scenario C: Financially sustainable 136-unit development with a 3% interest, 55-year term development loan. Households pay 25 percent of their income on rent. Financially feasible under the following conditions:

- A five percent average vacancy rate for the development;
- Households earn exactly the median of their AMI bracket;
- Development costs exclude land (i.e., land used for the development is already owned by the City);
- An upfront \$430,000 development subsidy would be provided for each unit, or \$58.5 million in total for 136 units; and
- A three percent interest, 55-year loan from either a forthcoming public bank of San Francisco or a revolving loan fund to be created and financed initially by City bonds.

Exhibit 5 below breaks down Scenario C in terms of development costs, operating costs, rental revenues, and annual payments.

Exhibit 5: Scenario C Income Distribution by Household Size and Unit Type

Household Size	Unit Type	Number of Units 0-30% AMI (Median: 15%)	Number of Units 30-50% AMI (Median: 40%)	Number of Units 50-80% AMI (Median: 65%)	Number of Units 80-100% AMI (Median: 90%)	Number of Units 100-120% AMI (Median: 110%)	Total Units
1	Studio (400 sq ft)	2	2	7	15	15	41
2	1-bed (550 sq ft)	2	2	7	15	15	41
3	2-bed (800 sq ft)	7	7	7	3	3	27
5	3-bed (1,000 sq ft)	7	7	7	3	3	27
<i>Total</i>	87,550 sq. ft.	18	18	28	36	36	136

Scenario C Operations and Development Costs

Unit Type	Number of Units	Operations			Development	
		Annual Rent per Unit Type (5% vacancy)	Annual Operating Costs per Unit Type ^a	Annual Net Operating Income/Unit Type	Total Development Costs per Unit Type ^b	Total Development Costs Minus \$430,000 Subsidy per Unit (loan amount needed)
Studio	41	\$789,699	\$408,688	\$381,011	\$12,578,000	(\$5,051,200)
1-bed	41	\$902,132	\$561,946	\$340,186	\$17,295,850	(\$334,150)
2-bed	27	\$410,091	\$538,272	(\$128,181)	\$16,567,200	\$4,957,200
3-bed	27	\$491,017	\$672,840	(\$180,823)	\$20,709,000	\$9,099,000
<i>Total</i>	136	\$2,593,939	\$2,181,746	\$412,193	\$67,150,850	\$8,670,850

Scenario C Debt Details

Loan amount	\$8,670,850
Interest Rate	3.0%
Term	55 years
Annual Debt Service	\$322,115
Net Income after Debt Service	\$90,078
Debt Service Coverage Ratio	1.28

Source: BLA analysis.

^a Operating costs used for this model are \$24.92 per square foot

^b Total development costs used for this model are \$767 per square foot

Scenario C consists of 136 units total and is financially self-sustaining with a \$430,000 per-unit subsidy, or a total subsidy of \$58.5 million. Scenario C assumes that the total development costs, *excluding land*, are \$67.2 million, based on costs of \$767 per square foot, or \$493,756 per unit. The per-unit subsidy of \$430,000 reduces the amount that the City would need to borrow for construction so that the operating revenue of the development is enough to cover the annual debt service, which is \$322,115 per year.

The units are distributed such that there is a higher number of very low-income family units compared to moderate-income family units (28 two- and three-bedroom units reserved for families making either 15 or 40 percent of AMI compared to 12 two- and three-bedroom units reserved for families and households making either 90 or 110 percent of AMI). The higher subsidy required for these larger units is partially offset by the higher number of studio and one-bedroom units reserved for higher-income households (60 studios and one-bedrooms reserved for households making either 90 or 110 percent of AMI compared to 8 studios and one-bedrooms for households making either 15 or 40 percent of AMI). However, even with these higher income tenants in the smaller units, this scenario still requires a public subsidy of \$430,000 per unit and assumes a relatively low 3 percent interest rate on the development loan.

Scenario D: Financially sustainable 136-unit development, with a 3 percent interest, 55-year term loan for development costs. Development costs include the cost of land. Households pay 25 percent of their income on rent. Financially self-sustaining under the following assumptions:

- A five percent average vacancy rate for the development;
- Households earn exactly the median of their AMI bracket;
- Development costs include land (i.e., land must be purchased by the City);
- A \$455,000 development subsidy would be provided for each unit, or \$61.9 million in total for 136 units; and
- A three percent interest, 55-year loan from either a forthcoming public bank of San Francisco or a revolving loan fund to be created and financed initially by City bonds.

Scenarios A, B, and C assumed that social housing would be built on existing City-owned land and would therefore have no associated land costs. Scenario D includes land costs assuming that the City builds social housing on land it purchases and the land costs are included in the total development costs. Exhibit 6 below shows the impact of land costs on a social housing development with land costs factored in, thus increasing development costs, the subsidy amount needed, and annual debt service payments. In the sample of actual San Francisco affordable housing project costs we used to estimate total development costs per square foot for our

scenarios, the addition of land costs increased development costs by \$40 per square foot, from \$767 to \$807 per square foot, or by 5.2 percent. With the project size of 87,550 square feet, the cost of the land for this scenario is assumed to be \$3.5 million.

Exhibit 6: Scenario D Income Distribution by Household Size and Unit Type

Household Size	Unit Type	Number of Units 0-30% AMI (Median: 15%)	Number of Units 30-50% AMI (Median: 40%)	Number of Units 50-80% AMI (Median: 65%)	Number of Units 80-100% AMI (Median: 90%)	Number of Units 100-120% AMI (Median: 110%)	Total Units
1	Studio (400 sq ft)	2	2	7	15	15	41
2	1-bed (550 sq ft)	2	2	7	15	15	41
3	2-bed (800 sq ft)	7	7	7	3	3	27
5	3-bed (1,000 sq ft)	7	7	7	3	3	27
<i>Total</i>	<i>87,550 sq. ft.</i>	<i>18</i>	<i>18</i>	<i>28</i>	<i>36</i>	<i>36</i>	<i>136</i>

Scenario D Operations and Development Costs

		Operations			Development	
Unit Type	Number of Units	Annual Rent per Unit Type (5% vacancy)	Annual Operating Costs per Unit Type ^a	Annual Net Operating Income/Unit Type	Total Development Costs per Unit Type ^b	Total Development Costs Minus \$455,000 Subsidy per Unit (loan amount needed)
Studio	41	\$789,699	\$408,688	\$381,011	\$13,234,800	(\$5,420,200)
1-bed	41	\$902,132	\$561,946	\$340,186	\$18,197,850	(\$457,150)
2-bed	27	\$410,091	\$538,272	(\$128,181)	\$17,431,200	\$5,146,200
3-bed	27	\$491,017	\$672,840	(\$180,823)	\$21,789,000	\$9,504,000
Total	136	\$2,593,939	\$2,181,746	\$412,193	\$70,652,850	\$8,772,850

Scenario D Debt Details

Loan amount	\$8,772,850
Interest Rate	3.0%
Term	55 years
Annual Debt Service	\$325,904
Net Income after Debt Service	\$86,289
Debt Service Coverage Ratio	1.26

Source: BLA analysis.

^a Operating costs used for this model are \$24.92 per square foot

^b Total development costs used for this model are \$807 per square foot

As mentioned above, the added cost of land in Scenario D increases the total development costs by about \$3.5 million, or 5.2 percent, although this could be higher or lower depending on the location and size of the land. These costs can be offset by an increase in the per-unit subsidy to make the development financially self-sufficient with a development loan at a three percent interest rate. The increase in the per-unit subsidy would reduce the amount that the City would need to borrow for construction so that the operating revenue of the development would be more than enough to cover the debt service. Like the other scenarios, adjustments to the number of units, per-unit subsidy, and/or interest rate affects the financial position of the scenario.

Scenario E: Not financially sustainable 136-unit development, with an 8 percent interest, 55-year loan for development costs. Households pay 25 percent of their income on rent. Not financially feasible with the following conditions:

- A five percent average vacancy rate for the development;
- Households earn exactly the median of their AMI bracket;
- Development costs exclude land (i.e., land is already owned by the City);
- A \$430,000 development subsidy would be provided for each unit, or \$58.5 million in total for 136 units; and
- An eight percent interest, 55-year loan from a private lender.

This scenario showcases an example of a development that would not be financially self-sustaining and demonstrates the importance of low-interest rate loans for our social housing development scenarios. This Scenario E assumes the same income distribution across 136 units as in Scenarios B-D, but with an 8 percent interest rate for the development loan. The subsidy per unit would be \$430,000 per unit, or \$58.5 million in total, the same as in Scenario C.

Exhibit 7: Scenario E Income Distribution by Household Size and Unit Type

Household Size	Unit Type	Number of Units 0-30% AMI (Median: 15%)	Number of Units 30-50% AMI (Median: 40%)	Number of Units 50-80% AMI (Median: 65%)	Number of Units 80-100% AMI (Median: 90%)	Number of Units 100-120% AMI (Median: 110%)	Total Units
1	Studio (400 sq ft)	2	2	7	15	15	41
2	1-bed (550 sq ft)	2	2	7	15	15	41
3	2-bed (800 sq ft)	7	7	7	3	3	27
5	3-bed (1,000 sq ft)	7	7	7	3	3	27
<i>Total</i>	<i>87,550 sq. ft.</i>	<i>18</i>	<i>18</i>	<i>28</i>	<i>36</i>	<i>36</i>	<i>136</i>

Scenario E Operations and Development Costs

Unit Type	Number of Units	Operations			Development	
		Annual Rent per Unit Type (5% vacancy)	Annual Operating Costs per Unit Type ^a	Annual Net Operating Income/Unit Type	Total Development Costs per Unit Type ^b	Total Development Costs Minus \$430,000 Subsidy per Unit (loan amount needed)
Studio	41	\$789,699	\$408,688	\$381,011	\$12,578,000	(\$5,051,200)
1-bed	41	\$902,132	\$561,946	\$340,186	\$17,295,850	(\$334,150)
2-bed	27	\$410,091	\$538,272	(\$128,181)	\$16,567,200	\$4,957,200
3-bed	27	\$491,017	\$672,840	(\$180,823)	\$20,709,000	\$9,099,000
<i>Total</i>	<i>136</i>	<i>\$2,593,939</i>	<i>\$2,181,746</i>	<i>\$412,193</i>	<i>\$67,150,850</i>	<i>\$8,670,850</i>

Scenario E Debt Details

Loan amount	\$8,670,850
Interest Rate	8.0%
Term	55 years
Annual Debt Service	\$702,418
Net Operating Income	(\$290,225)
Debt Service Coverage Ratio	0.59

Source: BLA analysis.

^a Operating costs used for this model are \$24.92 per square foot.

^b Total development costs used for this model are \$767 per square foot.

Scenario E assumes neither a City revolving loan fund nor a public bank are created and/or able to finance social housing projects in San Francisco for long terms at low interest rates. We therefore assume a higher interest rate of 8 percent, a rate that might be possible from a commercial bank in the current market. Scenario E also assumes an upfront subsidy of \$430,000 per unit, or \$58.5 million total for the 136 units, the same as in Scenario C. But even with that, Scenario E yields a non-financially sustainable development.

The project would not be able to meet its annual operating costs and debt service obligations with the rental revenue assuming residents are earning the median of their AMI brackets and pay 25 percent of their income on rent because the City would have to take on too large of a loan for construction on the project.

Scenario F: Update to Scenario B using 2024 data. Financially sustainable 136-unit development, with 3 percent interest, 55-year loan on development costs and an annual \$3.2 million operating subsidy to cover debt service on the project's development cost loan in lieu of a lump sum upfront subsidy. Households pay 25 percent of their income on rent. Financially self-sustainable under the following assumptions. May be preferable due to ability to finance multiple projects at once given the much lower initial cost (\$3.2 million per year versus nearly \$62 million up-front).

- A five percent average vacancy rate for the development;
- Households earn exactly the median of their AMI bracket;
- Development costs exclude land (i.e., land is already owned by the City);
- An upfront lump sum development subsidy would not be provided; instead, a \$3.2 million subsidy would be provided annually to offset debt service costs; and
- A three percent interest, 55-year loan for development costs from either a forthcoming public bank of San Francisco or a revolving loan fund to be created and financed initially by City bonds.

Similar to scenarios A-D that use 2021 data on AMI, development costs, and operating costs, a scenario for potential social housing in San Francisco using 2024 data is possible with a relatively high per-unit subsidy of \$630,000. However, also similar to models A-D, we believe that it may be preferable to subsidize the operating expenditures by taking out a large development loan and then subsidizing the annual payments on that loan. This spreads the subsidy out over time, rather than requiring a large up-front subsidy, and could allow the City to leverage its limited resources better. Scenario F models this type of subsidy.

Exhibit 8 below breaks down Scenario F in terms of development costs, operating costs, rental revenues, and annual debt service payments.

Exhibit 8: Scenario F Income Distribution by Household Size and Unit Type

Household Size	Unit Type	Number of Units 0-30% AMI (Median: 15%)	Number of Units 30-50% AMI (Median: 40%)	Number of Units 50-80% AMI (Median: 65%)	Number of Units 80-100% AMI (Median: 90%)	Number of Units 100-120% AMI (Median: 110%)	Total Units
1	Studio (400 sq ft)	0	2	7	12	10	31
2	1-bed (550 sq ft)	0	2	7	12	10	31
3	2-bed (800 sq ft)	5	5	7	10	10	37
5	3-bed (1,000 sq ft)	5	5	7	10	10	37
<i>Total</i>	<i>87,550 sq. ft.</i>	<i>10</i>	<i>14</i>	<i>28</i>	<i>44</i>	<i>40</i>	<i>136</i>

Scenario F Operations and Development Costs

Unit Type	Number of Units	Operations			Development	
		Annual Rent per Unit Type (5% vacancy)	Annual Operating Costs per Unit Type ^a	Annual Net Operating Income/Unit Type	Total Development Costs per Unit Type ^b (loan amount needed)	<i>No lump sum upfront subsidy for this scenario.</i>
Studio	31	\$676,424	\$755,067	(\$78,643)	\$11,271,600	
1-bed	31	\$773,146	\$755,067	\$18,079	\$15,498,450	
2-bed	37	\$874,368	\$901,209	(\$26,841)	\$26,906,400	
3-bed	37	\$1,049,429	\$901,209	\$148,220	\$33,633,000	
Total	136	\$3,373,367	\$3,312,552	\$60,815	\$87,309,450	

Scenario F Debt Details

Loan amount	\$87,309,450
Interest Rate	3.0%
Term	55 years
Annual Debt Service	\$3,243,477
Net Income after Debt Service	(\$3,182,662)
Annual Operating Subsidy*	\$3,182,662

Source: BLA analysis.

*Note: This amount represents annual debt service, net of funds available from the development's net operating income.

^a Operating costs used for this model are \$24,357 per unit

^b Total development costs used for this model are \$909 per square foot

Scenario F shows what the unit sizes and income distributions would need to be in order for social housing to be feasible using 2023/2024 costs. If the City takes out a loan or issues bonds for the entire \$87.3 million development cost and pays it off at a three percent interest over a 55-year term, the City would need to pay approximately \$3.2 million annually from the Housing Stability Fund or another source, amounting to a total of \$175 million over the 55-year period of the loan. This is more expensive in the long run than if the City invests the majority of the development costs into the project up-front as a per-unit subsidy but it provides more financial flexibility to the City.

Additionally, Scenario F has fewer very-low and low-income households, and more above median income households, than the other scenarios in order to offset the rise in development and operating costs between 2021-2024. Scenario F has 44 percent fewer households earning between 0-30 percent AMI than the other scenarios; 22 percent fewer households earning

between 30-50 percent AMI; the same number of households earning between 50-80 percent AMI; 22 percent more households earning between 80-100 percent AMI; and 11 percent more households earning between 100-120 percent AMI.

Maintaining a Social Housing Program in City government

A new City program focused on creating and maintaining mixed-income social housing in San Francisco would need its own City agency home. The San Francisco Local Agency Formation Commission (LAFCO) is commencing a study in the coming months analyzing the pros and cons of housing the program in an existing City agency versus creating a brand-new agency. We note that the program could be housed in an existing City agency with experience in housing development, such as the Mayor’s Office of Housing and Community Development (MOHCD), or a new agency could be created.

For the development process, MOHCD reports staff hours on a project can vary depending on the complexity of the project. Exhibit 5 below summarizes a recent estimate of the typical staff hours assigned to an affordable housing development project at MOHCD, our assessment of whether those hours would be needed for the proposed social housing program, and the corresponding Full-Time Equivalent (FTE) costs based on current City and County of San Francisco salaries and benefits.

Exhibit 9: MOHCD Affordable Housing Staff Hours

Job Title	Estimated Hours per Project	Needed for Proposed Social Housing Program?	Cost for 1 FTE
9774 Project Manager	500	Yes	\$170,343
9775 Bond Program Manager	120	No	\$198,422
9774 Loan Administrator	90	Yes	\$170,343
9775 Construction Representation	80	Yes	\$198,422
0903 Director of Asset Management	27	Yes	\$233,631
Total	817		\$971,161
Less Bond Program Manager	120		\$198,422
Total	697		\$772,739
FTEs needed/ cost	.42		\$324,550

Source: BLA analysis of MOHCD information.

Note: Costs are from FY 2021-22 to stay consistent with the rest of the costs presented in this report, except for Scenario F, which uses 2024 costs.

*Assumes 1,664 productive hours per position per year, accounting for holidays, vacation, and other paid time off from a total of 2,080 hours per year per position.

Exhibit 9 shows that it currently takes a portion of the time of approximately five MOHCD employees to manage an affordable housing development from initial predevelopment to the start of construction, although at least one of these employees, the Bond Program Manager, would not be needed for social housing development.

Based on MOHCD’s experience, the staff hours required per development project, without the Bond Program Manager, would be 697, or approximately 0.42 full-time equivalent positions (FTEs). Given this, four new staff positions would need multiple projects to be fully productive. This is an argument for locating the social housing program in an existing agency, at least at first, to allow time for the ramp-up of new projects to absorb the new full-time staff. There would be greater economies of scale in an existing agency, at least initially, because staff not occupied by new social housing development projects could assist with other projects and agency activities. If a new agency were to be created, it would need to hire at minimum four FTEs at a cost of \$772,739 per year to kickstart the program, and those four FTEs may not be fully productive unless multiple social housing projects were being pursued at the start.

Besides establishing new social housing developments, the City would be responsible for operating and maintaining the facilities after they are constructed. The costs for operations and maintenance functions by City staff are estimated to be \$24.92 per square foot (2021 dollars) and are included in our model costs above and explained in Appendix I.

Creating a new agency comes with many one-time start-up costs which were recently illustrated by the proposed creation of a City Department of Sanitation and Streets (SAS). In their FY 2022-24 budget process, Public Works estimated that SAS's non-labor costs would include rebranding, purchasing IT equipment for new employees, and website costs. Additionally, there would be labor costs beyond the costs of the new agency's staff for functions such as accounting, IT, and human resources. Though SAS planned to work order these costs to existing departments rather than hiring its own staff, it still required budgeting for the costs incurred.

SAS was going to be a much larger department than the potential new department to house a social housing program would likely be, but several of the one-time costs included in the proposed SAS budget would remain the same no matter the size of the department, including branding and website creation and maintenance. Public Works estimated \$100,000 in one-time expenditures for just these costs.

Conclusion

The models presented above show the interaction of the key variables that will drive the financial sustainability of mixed-income social housing developments in San Francisco. Social housing will be able to provide the greatest benefits to a broad mix of tenants with a combination of low interest financing, City investments or subsidies, and an optimal proportion of tenant income required for rent. To the extent the social housing program faces financing constraints such as high interest rate loans and/or limited subsidy funding, the City could consider a phased in approach with more units for lower income tenants provided in subsequent developments after cash reserves have built up to cover higher costs. Initial developments would have more units for tenants closer to Area Median Income. This would still be beneficial to City households as there is a need for affordable housing at a wide range of incomes in San Francisco.

A relatively higher income mix of tenants for initial social housing projects would better ensure that funds will be sufficient to meet debt service obligations and provide funding for greater subsidies for lower income tenants over time, especially given trends in rising operating and development costs. If the City creates a public bank in the coming years as is currently being considered, this could provide an additional or alternative source for financing future projects at more favorable terms and provide for a mix of tenants that includes more low-income households.

Policy Options

The Board of Supervisors should:

1. In considering the creation of a social housing program owned and operated by the City and County of San Francisco, consider the advantages and disadvantages of creating a social housing program in an existing City department, such as the Mayor's Office of Housing and Community Development, versus creating a new City department for this purpose.
2. If supportive of creating a social housing program in San Francisco, solicit input from the Controller's Office of Public Finance and the Local Agency Formation Commission (LAFCO) on the advantages and disadvantages, timing, and relative costs of the following financing options for financing social housing projects: issuing City bonds for funding a revolving loan fund, obtaining funding from a forthcoming public bank; borrowing funds for developing projects to be paid off over time with Housing Stability Fund and/or General Fund monies, including the Housing Trust Fund; the Low-Income Housing Tax Credit (LIHTC) program; and collaborating with the Bay Area Housing Finance Authority (BAHFA) on forthcoming bond issuances.
3. Consider alternatives regarding how rents will be adjusted for social housing tenants including: adjusting rents to keep them at 25 percent of tenant income as they increase and decrease, or 2) set a base rent when tenants occupy units and adjust it each year for cost of living adjustments regardless of changes in tenant income.
4. Consider a policy for a City social housing program that phases in different tenant income mixes over time, allowing for a higher concentration of middle income housing for tenants at or near Area Median Income in early projects to build up greater net income from the projects needed to help finance subsequent projects with more housing units for tenants in lower income brackets relative to Area Median Income.

Appendix I: Details on Model Assumptions

Estimating Total Development Costs

To estimate the total development costs for our social housing models, we used the Mayor’s Office of Housing and Community Development’s (MOHCD) *Affordable Multifamily Housing New Construction Cost Comparison* compilation of costs (pro formas) for projects that were either in pre-development or under construction in November 2021. For Scenarios A-E we used costs from 2021 so that all costs could come from the same calendar year in this report. Most of our models exclude land costs and assume that the proposed social housing would be built on existing City-owned land, but one model (Scenario D) captures land costs in its total development costs. In that scenario, total costs are 5.2 percent higher than our estimated development costs without land costs included and the project is still financially feasible and sustainable

Because costs have escalated since 2021, particularly construction costs, for Scenario F we used *Engineering News Report’s* construction cost escalation index to estimate 2024 development costs. *Engineering News Report* estimates that construction costs in San Francisco have escalated by 18.5 percent between January 2022 and January 2024, so we added 18.5 percent to the construction costs estimated below to arrive at a 2024 cost estimate.

From our sample, we generated average total development costs, with and without land costs, for buildings with: 1) fewer than 100 units and, 2) 100 units or more.

The average total development cost, without land, for buildings with fewer than 100 units used in our models is \$938 per square foot, and the average total development cost, without land, for buildings with 100 units or more used in our models is \$767 per square foot. The average total development cost, including land, for buildings with fewer than 100 units is \$978.50 per square foot, and the average total development cost, including land, for buildings with 100 units or more is \$807 per square foot.

Exhibit I: 2021 Total Development Cost (dollars per square foot)

	Including Land	Excluding Land
< 100 units	\$978.50	\$938
>= 100 units	\$807	\$767

Source: BLA analysis of MOHCD pro formas

Exhibit II: 2024 Total Development Cost (dollars per square foot)

	Including Land	Excluding Land
< 100 units	\$1,160	\$1,112
>= 100 units	\$956	\$909

Source: BLA analysis of MOHCD pro formas

Estimating Operating Costs

We used two sources to estimate annual operating costs for our models using both 2021 and 2024 data. First, we estimated salary and benefits costs by reviewing a sample of ten MOHCD pro formas for affordable housing developments that were prepared in 2021. We reviewed the staffing plans for each development and calculated the average operating staff costs for our sample. Then, we compared the operations job titles and duties for our sample developments to comparable jobs in the City and County of San Francisco’s compensation and classification database²³ in order to adjust the salaries and benefits to account for City salaries. The job classification comparisons used are summarized below in Exhibit III.

Exhibit III: MOHCD affordable housing development job titles and their City classification counterparts

MOHCD Affordable Housing Job Title	City and County of San Francisco Job Title
General Manager/Property Manager/Community Manager	4142 Senior Real Property Officer*
Assistant General Manager/Assistant Property Manager/Assistant Community Manager	4140 Real Property Officer*
Desk Clerk	1402 Junior Clerk
Maintenance Supervisor	7203 Buildings and Grounds Maintenance Supervisor
Maintenance Technician	7514 General Laborer
Janitorial/Janitor	2708 Custodian

²³ <https://careers.sf.gov/classifications/>

Services Coordinator	2589 Health Program Coordinator I
Social Worker	2910 Social Worker

Source: BLA analysis

* The job responsibilities for the City's 4142 Senior Real Property Officer and 4140 Real Property Officer include some duties that a General Manager or Assistant General Manager of a social housing property would not be required to complete, including property appraisals. We estimate that approximately 30 percent of the duties of the 4142 Senior Real Property Officer and the 4140 Real Property Officer would not be relevant for social housing property management, so we reduced the salaries of these positions by 30 percent when creating our operating cost estimate to reflect this.

We then calculated the average salary and benefits costs for the affordable housing developments if the salaries were for the corresponding City employees to account for the proposed social housing developments being completely operated by City workers. We calculated an average per-unit salaries and benefits cost of \$8,555 annually, or \$11 per square foot, in 2021, and \$9,365, or \$12 per square foot, in 2024.

Next, we used the National Apartment Association's (NAA) 2021 Operating Income and Expense Data for the San Francisco-Oakland-Hayward Metropolitan Area for all other operating costs. This includes insurance, management fees, administrative expenses, marketing, contract services, repair and maintenance, and major capital expenditures. We combined the NAA operating costs with the salary and benefits costs and got a total annual operating cost of \$24.92 per square foot, or \$19,469.82 per unit, in 2021. In 2024, the NAA changed the methodology of its Operating Income and Expense reports slightly and only reports on the data at the per-unit level for each metropolitan area. The most recent data available from the NAA is year-to-date data from December 2023, so we combined the NAA 2023 year-to-date operating costs with the 2024 City staffing costs to get a per-unit operating cost estimate of \$24,357. This is 25 percent higher than our operating cost estimate for 2021.

Appendix II: Model Comparisons

The table below presents our assumptions for the variables used for the models in this report so they can be easily compared side by side.

Exhibit II: Key Variables in Social Housing Scenarios

	Scenario A	Scenario B	Scenario C	Scenario D	Scenario E	Scenario F
# Units	60	136	136	136	136	136
Annual rental income	\$ 1,171,837	\$ 2,593,939	\$ 2,593,939	\$ 2,593,939	\$ 2,593,939	\$ 3,373,367
Annual operating costs	\$ 1,008,014	\$ 2,181,746	\$ 2,181,746	\$ 2,181,746	\$ 2,181,746	\$ 3,312,552
Net operating income	\$ 163,823	\$ 412,193	\$ 412,193	\$ 412,193	\$ 224,516	\$ 60,815
Development costs total	\$ 37,942,100	\$ 67,150,850	\$ 67,150,850	\$ 70,652,850	\$ 67,150,850	\$ 87,309,450
Development costs per unit	\$ 632,368	\$ 493,756	\$ 493,756	\$ 519,506	\$ 493,756	\$ 641,981
Development costs/square foot	\$ 938	\$ 767	\$ 767	\$ 807	\$ 767	\$ 909
Subsidy cost total	\$ 29,400,000	\$ 114,532,385	\$ 58,480,000	\$ 61,880,000	\$ 58,480,000	\$ 175,046,410
Subsidy cost per unit	\$ 490,000	\$ 842,150	\$ 430,000	\$ 455,000	\$ 430,000	\$ 1,287,106
Interest rate on loan	1%	3%	3%	3%	8%	3%
Loan term	99 years	55 years	55 years	55 years	55 years	55 years
Loan amount	\$ 8,542,100	\$ 67,150,850	\$ 8,670,850	\$ 8,772,850	\$ 8,670,850	\$ 87,309,450
Annual debt service on loan	\$ 135,962	\$ 2,494,601	\$ 322,115	\$ 325,904	\$ 702,419	\$ 3,243,477
DSCR	1.2	-	1.28	1.26	0.59	-
Tenant income relative to AMI brackets	Median within each AMI bracket	Median within each AMI bracket	Median within each AMI bracket	Median within each AMI bracket	Median within each AMI bracket	Median within each AMI bracket
% tenant income toward rent	25%	25%	25%	25%	25%	25%

Source: BLA analysis