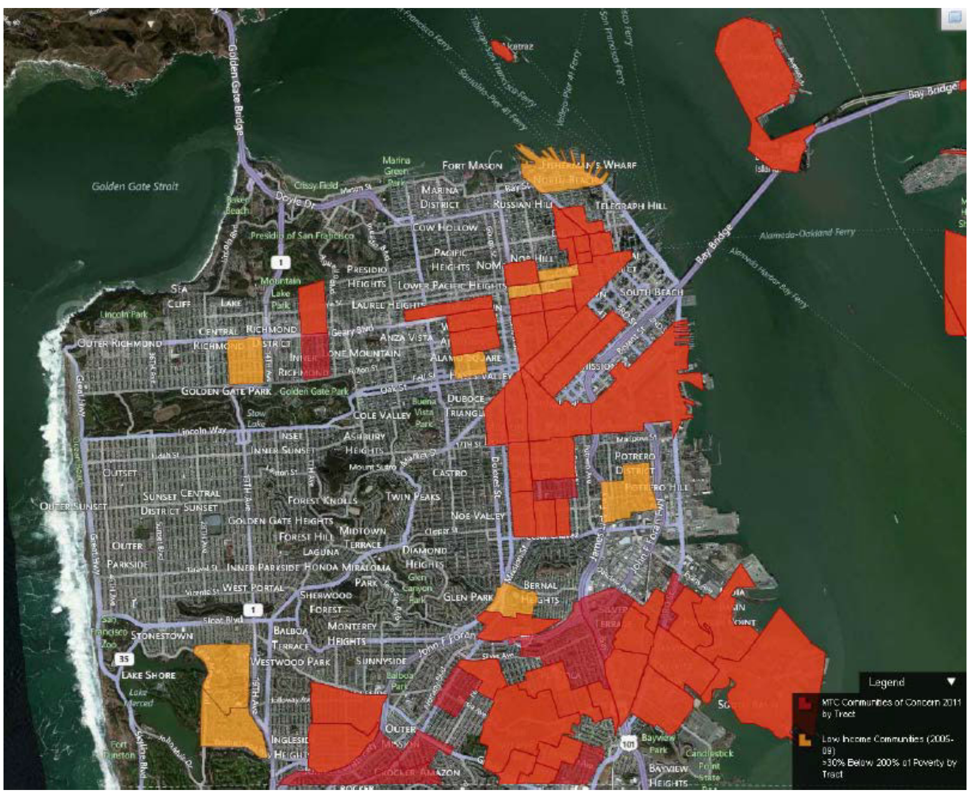
WHOSE FUTURE?

"Smart Growth" in San Francisco



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Whose Future? “Smart Growth” in San Francisco

In July 2013, the Association of Bay Area Governments (ABAG--the Bay’s regional planning and governance body) and the Metropolitan Transportation Commission (MTC--the regional transportation funding agency) approved a state-mandated plan aimed at reducing carbon-emissions. The document, called Plan Bay Area, proposes to put 92,000 new housing units, 190,000 new jobs, and 73,000 more cars into San Francisco over the next 30 years. San Francisco’s population will be expected to grow from 850,000 in 2010 to over 1,080,000 in 2040 – a growth of roughly 30%. The projected pace of housing construction would average around 3,100 units annually, a rate that has been reached only twice over the last 50 years since the era of 1960s Urban Renewal.

Is the plan for this pace of growth even realistic, and will this “smart growth” plan have the hoped-for benefits, or is it simply, in planner-speak, “aspirational”? How will that level of growth impact existing communities, the local economy, and already stretched transportation and city infrastructure? It is clear that we desperately need a plan for cutting carbon emissions and linking housing, jobs, and transportation. Can we even accomplish this within the current paradigm of profit-driven development?

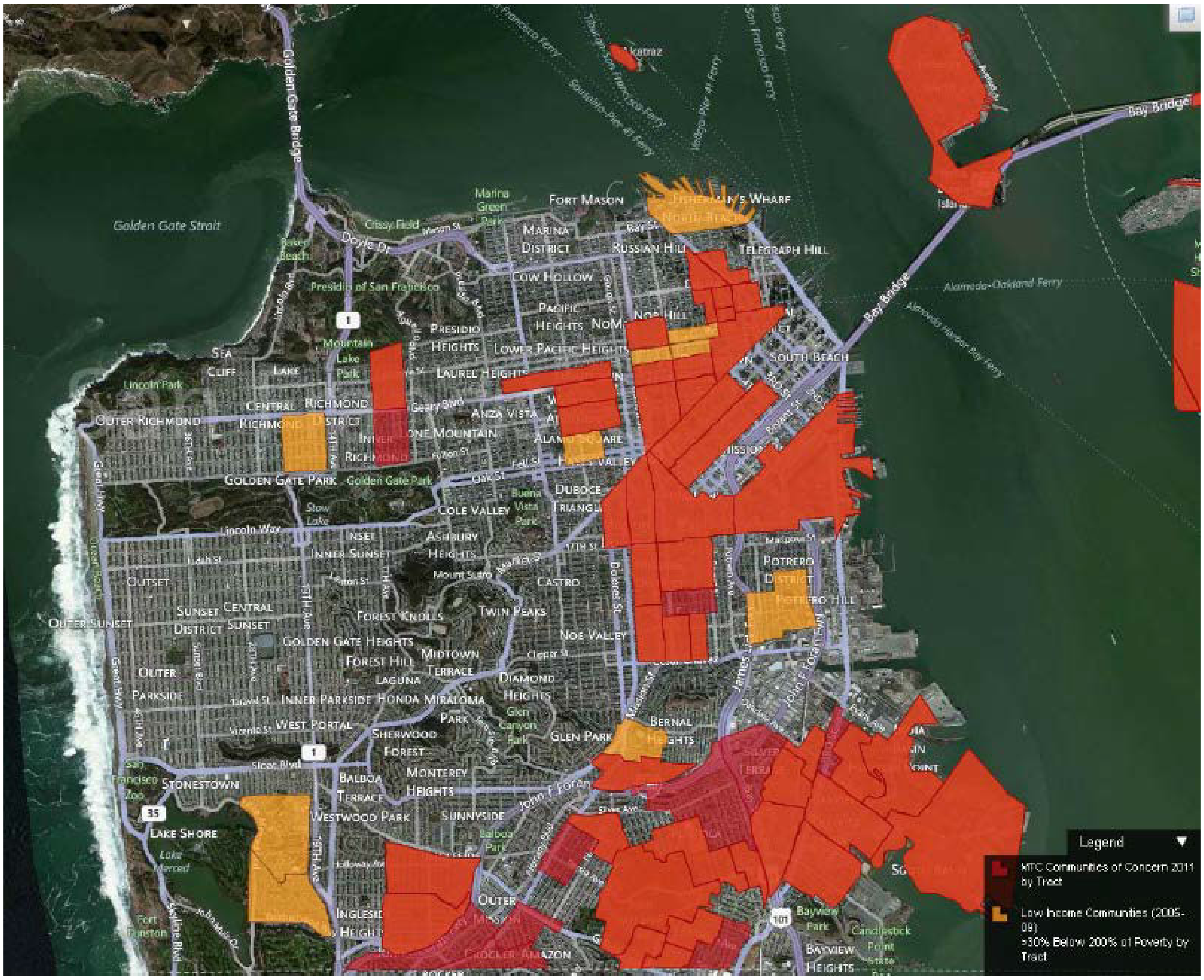
A plan with no teeth

ABAG, looking at job growth projections, every few years creates a Regional Housing Needs Assessment (the RHNA), which underlies much of Plan Bay Area. It predicts a need for new housing that is roughly 40% low- and very-low-income housing, 20% moderate income housing (for those making about the median income), and 40% upper middle and luxury housing.[1] These housing needs projections are in turn embedded into San Francisco’s General Plan Housing Element, which is official city policy. The reality is that in San Francisco we currently build almost 70% of our housing for the upper-end and luxury market. So there is from the start a fundamental production imbalance that contradicts Plan Bay Area’s “aspirational” goals of building to meet the need for homes for all the projected population growth in the city over the next 30 years. There is nothing in Plan Bay Area, whether funding or policies, to change that trend. Without that, most of the planned 92,000 new units of housing will continue to be geared to the high-end market.

Where is most of this planned new luxury development to go? Precisely in those traditionally working-class and people of color communities in San Francisco’s Eastern and Southeast frontline neighborhoods, what ABAG has euphemistically termed “Communities of Concern.” The South of Market, the Mission District, and Bayview / Hunter’s Point stand to take the brunt of the potential negative impacts from this regional “smart growth” plan. In San Francisco, a large part of these areas have already been rezoned for greater heights and densities (the Eastern Neighborhoods rezoning, the Shipyard/Candlestick Point plan area, the Rincon Hill and Transbay Terminal plan areas, etc.). One of the greatest impacts of this regional “plan” on San Francisco is not rezoning per se, but the portion of the State enabling legislation (SB375) that calls for “CEQA streamlining” as an incentive for meeting the Plan’s development goals – and according to Plan Bay Area, practically any development project within the entire City of San Francisco could be eligible for this

[1] The latest RHNA, adopted in 2013, can be found here: http://www.abag.ca.gov/planning/housingneeds/. It lays out a regional housing need for 40.2% low and very-low-income units, 17.8% moderate-income units, and 42% above-moderate units.

CEQA exemption.[2] This is perhaps the tasty golden apple that the growth-boosters behind the plan are really after, with long-term implications on the ability of local communities to shape how development happens in their neighborhoods.



San Francisco's "Communities of Concern," areas identified by ABAG and MTC as having a high percentage of minority and/or low-income residents. Source: MTC, February 1, 2012.

Beyond that, the plan's "aspirational" goals do not address the issue of displacement of existing residents from existing neighborhoods – a process that accelerates with every economic boom, reflected in the current skyrocketing rents and spike in no-fault evictions. By its own admission, Plan Bay Area will increase the risk of neighborhood disruption and displacement of existing residents and businesses, especially among the city's working class communities. The fact that the Plan readily acknowledges that the potential for "community disruption" and displacement will *increase* under the proposed Plan Bay Area scenario by 71% (from 21% displacement potential under its 2040 Baseline forecast to 36% displacement potential under Plan Bay Area)[3] and yet offers no substantive or enforceable mitigations or solutions, is shocking.

[2] Plan Bay Area, pg. 59, Map 5
[3] Plan Bay Area, pg. 109, Table 2

Is Plan Bay Area fixable? What might development without displacement mean? This question contains within it several more questions:

1. What kinds of neighborhood stabilization protections can we get that keep rents affordable, control evictions, protect neighborhood commercial districts, and slow down speculation and conversions of rental housing to TICs or condos that incentivize evictions of existing tenants.
2. How do we fund low to moderate income affordable housing we need? According to the Plan Bay Area calculations, we should have a balance of about the same amount of low- income housing as we have luxury housing. San Francisco's Proposition C on the November 2012 ballot was a great victory to restore some of the affordable housing funds lost with the dissolution of Redevelopment agencies, but it is not enough, and its uses will be stretched thin between new affordable housing production and the rebuilding of existing public housing units.
3. How do we build moderate-income workforce housing for those making between 80% and 120% of the median income? There are no State or Federal subsidies available for this kind of housing. In SF private developers are incentivized to build 12% of their units as "below market-rate" units affordable to moderate-income first-time homebuyers, but most developers choose to pay a fee instead of building the units. If we were to achieve the Plan Bay Area calculations above, it would necessitate all private developers to build mixed-income buildings with 33% of all units affordable to moderate-income residents.
4. And, finally, how do we pace the development of market-rate housing relative to affordable homes, so that the housing needs of all San Franciscans are met equitably? As stated previously, the city's Housing Element calls for nearly 60% of new housing to be for very-low, low-, and moderate-income households, but the pattern has been that only about 30% of housing is affordable at these levels while the remainder has been market-rate development.

The answer that Plan Bay Area gives us is that we cannot do anything about the first three questions: we are hamstrung by State laws from any further renter protections (Ellis Act, Costa-Hawkins, State prohibitions on vacancy rent control and commercial rent control); we have done as much as we can to find local funds for affordable housing (the 2012 Housing Trust Fund passed by the voters); and we are constrained from demanding more from developers by the "sensitivity" of their pro formas. And the last question is anathema to the planning agencies, where the underlying philosophy is simply "build, baby, build," any precautionary principles to protect communities be damned. We may be able to calculate what income levels we need to build for, but such goals will always simply be "aspirational."

At a recent public talk, San Francisco Planning Director John Rahaim basically threw up his hands, claiming it was one of the greatest disappointments of his tenure to have found no tools to prevent displacement and the gentrification of San Francisco's vital and diverse neighborhoods. That's a disturbingly defeatist position for our chief city planner to take. We might be tempted to believe him, if the Planning Department had even tried a few times…

The supply-side fallacy

There is a simple (and simple-minded) supply-and-demand narrative that comes from the pro-growth boosters, that we can build our way out of this mess, simply through upzoning, deregulation, and cutting environmental protections: the neoliberal model of Maggie Thatcher, Ronnie Reagan and friends. If we simply build enough, eventually housing opportunities will trickle down to the poor and moderate-income people that developers are not building for.

But such simple-minded arguments deny the reality of San Francisco, such as the constraints of a land-locked city, largely built out since 1940s and 50s when the Sunset District was completed in a relatively suburban model. In classic economic theory, prices are set by supply-and-demand only when the market is "competitive," ie, when neither consumers nor suppliers have the "market power" to set the price by themselves. But there is no "free land" left to build on in San Francisco. A handful of owner/developers dominate the market for the scarce land that is left to develop. Moreover, the consumers are not just those with housing needs identified by the RHNA, but speculators driving prices up. A recent San Francisco Chronicle article reported that speculators (or "investors" as the Chronicle calls them) using "all cash" made up nearly a third of all home buyers in the Bay Area.[4]

The reality is that we have never built 5,000 units per year (as San Francisco's pro-growth Housing Action Coalition would have it) – 1,500 per year has been the average including even the Urban Renewal years, and 3,000 was what we were able to build at the height of the last housing boom, almost all of it built as luxury condos.[5] And despite the developers' dreams, San Francisco will never be Houston: we have strong communities, both those concerned about equity and those with more NIMBY interests, that will not allow the radical deregulation many developers (and the growing ranks of Ayn Rand libertarian techie counterparts) seek. So if the supply-side argument does not work, what does? How do we keep our existing diverse communities from being gentrified into oblivion? San Francisco's beauty and quality of life exists because of the people who never left the city when capital flowed out in droves to the suburbs in the post-War years, the ethnically and economically-diverse communities who built and enriched the city and made it what it is today.

Putting protections first

What are our solutions? In fact, strategies exist. Many have been implemented in other regions and jurisdictions, and some reforms are not even that radical.

Over the three-year process of developing the plan, many equity advocates, including San Francisco's Council of Community Housing Organizations (CCHO), joined together in suggesting possible strategies to ABAG/MTC. The tremendous pushback to the plan's worst features came from progressive advocates from throughout the region loosely united in a "Six Wins for Social Equity" coalition, including community organizations such as Causa Justa/Just Cause, East Bay Housing Organizations, and Chinatown Community Development Center, among many others, and regional groups such as Urban Habitat, Public Advocates, and ACCE. An alternative scenario was presented to the regional agencies — the "Equity, Environment and Jobs" (EEJ) alternative — that Plan Bay Area's own analysis indicated would have done a better job of addressing climate change, increasing access to opportunity, and leading to a more sustainable and healthy Bay Area for *all* of the region. MTC and ABAG rejected or watered down the concrete proposals presented by advocates, though language was inserted in the final Plan Bay Area document that might allow for future

[4] Said, Carolyn: "Home Prices Soar in Bay Area," San Francisco Chronicle, June 14, 2013: (http://www.sfchronicle.com/realestate/article/Home-prices-soar-in-Bay-Area-4599496.php)
[5] At the height of the last housing boom, 3,019 units in 2008 and 3,366 units in 2009.

reforms, thanks to the leadership of a small core of progressive regional leaders pushing hard for amendments in the last adoption hearings on the Plan — including two of San Francisco's representatives, David Campos (MTC) and Eric Mar (ABAG). The Plan that was finally approved was marginally better with these hard-fought amendments, but still leaves it fundamentally flawed and ensures that local struggles against displacement will get harder, not easier, despite what the Plan's aspirational rhetoric would have the public believe.

What would a package of community protection and equitable development measures look like? Here are some ideas that together could be the foundation for a strong system that looks to a future that develops hand-in-hand with the development of our own communities. This list focuses on housing policies, but even this is not enough – any consideration of growth has to incorporate funding for a robust bus transit system that serves our neighborhoods, and all the necessary social services and neighborhood infrastructure needed to maintain strong communities.

First, we need a suite of <u>Neighborhood Stabilization Strategies</u>: stronger renter protections, vacancy control, and condo conversion controls so we don't promote the cannibalism of our existing housing stock. Among these might be:

1. <u>Small site acquisition and rehab</u> programs to improve and preserve "market rate" (usually rent-controlled) affordable units as permanently affordable homes, with mechanisms to ensure existing lower-income tenants can remain in place, for buildings to be operated as nonprofit owned affordable rental housing for low-income tenants or converted to limited equity housing cooperative/ community land trust properties.
2. Encourage <u>limited-equity housing cooperative/community land trust conversions</u> through continued loan and grant funding, such as San Francisco's Real Ownership Opportunities for Tenants program.
3. <u>Replacement housing requirements,</u> ensuring that developers replace any lost lower-income and rent-controlled housing units with permanently affordable units, to minimize community disruption and individual household displacement.
4. <u>Section 8 protections</u> that prohibit discrimination against Section 8 voucher holders by landlords.
5. <u>Right of First Refusal options</u>, when rental buildings are placed for sale, requiring owners to send tenants an offer letter with real pricing based on bona fide purchasers, and allowing tenants a defined waiting period to line up financing. Various ownership options could be available for different sized buildings; e.g., buildings up to four units could be purchased as TIC; larger buildings would have to form a resident association or limited-equity housing coop (LEHC). Washington DC enacted a similar ordinance, known as TOPA.
6. <u>Buy-out Controls</u>, requiring landlords to file "buy-outs" (offers of money for a tenant to vacate a unit) at the Rent Board, and extending condo conversion prohibitions to units where tenants were bought out or evicted.
7. <u>Vacancy Parcel Tax</u>, to incentivize landlords to rent out their buildings (both residential and commercial) and not sit on them as speculators.
8. <u>Anti-speculation ordinances,</u> such as the graduated transfer fee proposed in the late 1970s, taxing up to 80% of profits of any real estate resale that happens within a year or two of initial purchase, gradually going down to zero at year ten, to slow down speculation.
9. <u>Rent tax</u>, graduated to reflect rent increases, meant to disincentivize the drastic rent increases that displace people during "hot" market spikes.

10. Make State-level repeal or amendments to Costa-Hawkins and Ellis a priority for the City's and regional representatives at the State Capitol.

Setting goals based on reality and committed funding

Second, we need to vastly ramp up our existing affordable housing investment, which only partially meets the real need. At best, with the Redevelopment funds formerly available to the city, San Francisco was able to build on average 300-400 units of low-income housing units per year. How do we get to that RHNA allocation of 40% affordable for low-and very-low income (0-80% of the Area's Median Income, or AMI), 20% moderate income (80-120% AMI), and 40% market (120% AMI and above)? Marrying what San Francisco can realistically build per year on a sustained basis (a reality-based projection of 2,000 units per year average) with the real need at various affordability levels, every year we would need to be building 800 permanently affordable low-income units, 400 moderate-income "BMR" units (that would be equivalent to 33% inclusionary units built on-site[6]), and no more than 800 market-rate units above 120% AMI (and maybe we can hope that if there's any reality to the trickle-down theorists, "the market" will adjust for the upper-middle-income buyers in the next foreclosure crisis, but don't hold your breath…).

A series of Affordable Housing Strategies to achieve such a goal might include some or all of the following:

1. Funding commitment. We need to double or triple local investment in affordable housing to produce the goal of 800 units/year net new units (the Prop C Housing Trust Fund is calculated to provide local matches for about 300 units per year, and much of that will be earmarked in the first several years to public housing rebuild).
2. Land banking programs, including dedication of all surplus publicly owned land (including parking lots), to preserve and protect parcels for affordable housing development.
3. Jobs-housing linkage fees, readjusted to reflect the real "nexus" between workforce needs and the cost of housing needed for those workers.
4. Increased inclusionary housing fees to reflect the real profit to developers, by building type, of choosing to fee out rather than build the on-site median income unit.
5. Tiered incentive zoning for ALL rezonings, tying any and all height or density increases to increases to a high on-site inclusionary requirement, and allowing developers the option of either building at the current "as of right" potential with 12-15% inclusionary, or at a greater development with the greater inclusionary, to ensure that all market-rate buildings are mixed-income, with as close to 33% BMR units as we can realistically get. A prototype of this kind of zoning was recently adopted as part of the Western SoMa Plan.
6. Community stabilization policies that incentivize a production balance between market-rate and affordable development creating a linkage between the two. Discretionary permits (conditional uses, tiered heights, variances and exemptions) for market-rate development should be conditioned on achievement of an overall minimum affordable housing requirement (which might be achieved with a combination of inclusionary moderate-income units, low-income affordable unit production, and

[6] Inclusionary units, also known as "Below Market-Rate" or BMR units, are a percentage of units built within a market-rate development but priced to be affordable to a certain income level. In San Francisco, developers are required to build 12-15% of their units as BMR units, typically condos priced to be affordable to buyers making 80-120% AMI, but most large developers choose an option to pay a fee rather than build the units on-site.

affordable housing site dedications), and no new discretionary permits would be issued until the affordable balance is met. A version of this is currently being discussed as trailing legislation to the Western SoMa Plan. This could be done by amending the Housing Element to create a linkage between the construction of new affordable housing and market rate housing which fulfills the demand for affordable housing created by market rate housing development even if such linkage would result in the temporary suspension of approval of market rate housing developments until both the affordable housing and moderate-income housing needs have been met.

Creating a plan with guts

If our Planning Department, Planning Commission, Transportation Authority, and the other agencies (the Mayor's Office of Economic and Workforce Development being an important one) were truly serious about mitigating displacement pressures, they would lay out a comprehensive plan of strategies to deal with the coming impacts. If Plan Bay Area and the regional planning agencies (MTC and ABAG) were serious about their "aspirational" goals, they would condition any changes (rezonings, CEQA streamlining, OneBayArea block grants and other regional transportation funding grants) to local adoption of strong local neighborhood stabilization and affordable housing policies, designed to mitigate the identified affordable housing and displacement impacts of the "smart growth" offered by the plan.

What is needed first, however, is not simply policy ideas, but a vision and political leadership, and the guts to say we need to link growth for real estate developers to development for our own communities and neighborhoods. Let's imagine a Bay Area that develops over the next thirty years, with new housing and new jobs, not just for the upper class and urban elites and the ephemeral technology booms, but with a vision of how we build for ALL Bay Area residents. Let's imagine we move forward an agenda that says, sure, the real estate industry can build for the upper reaches of the market, if we also make a serious and funded public commitment to build for the other 60% that includes everyone who makes under 120% of the median income, which "the market" will never reach. We need a transportation vision that acknowledges that if we are going to get people out of their cars, we must do that jurisdiction by jurisdiction, with culturally vital and ethnically diverse mixed-income communities, and not let the Bay Area develop with a rich elite core and poor people's banlieues in the outskirts of Tracy and Vallejo. We need an economic vision that says we welcome new jobs, but these must not be just for an imported workforce that doesn't yet exist, but that should be tailored to our existing residents, with a comprehensive educational continuum to get people into the growing new economies. And we need an ecological vision that has the guts to say, we must develop at the rate that it takes to take care of our own diverse working communities.