ULI San Francisco

City & County of San Francisco MOHCD

Workforce Housing and Affordable Middle-Income Revenue Bonds (WHAMI)

“The Housing We Need Act”

Workforce
Housing and
Affordable
Middle-
Income Revenue Bonds

Technical Assistance Panel

San Francisco, California
December 2-3, 2024

Cover Image: SF MOHCD Briefing Presentation [A]

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About ULI

The Urban Land Institute (ULI) is a global, member-driven organization comprising more than 48,000 real estate and land use professionals dedicated to advancing ULI's mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI's interdisciplinary membership of professionals from private enterprise and the public sector representing all aspects of the industry, including developers, property owners, investors, architects, urban planners, public officials, real estate brokers, appraisers, attorneys, engineers, financiers, and academics. Established in 1936, ULI has a presence in the Americas, Europe, and Asia Pacific regions, including over 2,000 members in ULI San Francisco (sf.uli.org).

About ULI TAPs

The ULI San Francisco Technical Assistance Panel (TAP) program is an extension of the national ULI Advisory Services program. ULI's advisory services panels provide strategic advice to clients (public agencies, nonprofit organizations, or nonprofit developers) on complex land use and real estate development issues. The program links clients to the knowledge and experience of ULI and its membership.

Since 1947, ULI has harnessed the technical expertise of its members to help communities solve difficult land use, development, and redevelopment challenges. Since 1982, ULI San Francisco has adapted this model for use at the local level, delivering 52 TAPs.

TAPs include extensive preliminary briefings followed by an intensive two-day, in-person working session in the client's community. A detailed briefing package and guided discussion are provided by the client to each TAP panelist in advance of each working session. In these sessions, ULI's expert panelists tour the study area (if applicable), interview stakeholders, and address a set of questions proposed by the client about a specific development issue or policy barrier within a defined geographic area. The product of these sessions is a final presentation and report, which presents highlights of the panel's responses to the client's questions, as well as a diverse set of ideas and suggestions. Learn more at: sf.uli.org/get-involved/technical-assistance-panels.

ULI Terwilliger Center for Housing

Through its Accelerating Housing Production Grants, the ULI Terwilliger Center for Housing leverages TAPs and other forums to directly engage with local communities. It brings expertise to solve unique affordability challenges and expand the production and preservation of attainable housing. This initiative is possible due to the generous support of the **Caroline and Preston Butcher Endowment.**

San Francisco MOHCD Technical Assistance Panel

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Contents

Abbreviations

AMI: Area Median Income
BAHFA: Bay Area Housing Finance Authority
CTCAC: California Tax Credit Allocation Committee
DAHLIA: Database of Affordable Housing Listing, Information, and Applications (San Francisco Portal)
IRR: Internal Rate of Return
JPA: Joint Powers Agency or Authority
LIHTC: Low-Income Housing Tax Credit
RHNA: Regional Housing Needs Assessment
SAFMR: Small Area Fair Market Rents
WHAMI: Workforce Housing and Affordable Middle-Income Revenue Bonds

Executive Summary

The City & County of San Francisco Mayor's Office of Housing and Community Development (MOHCD) engaged ULI San Francisco to convene a Technical Assistance Panel (TAP) to advise on the legal, market, and financial feasibility of the Workforce Housing and Affordable Middle-Income (WHAMI) legislation.

WHAMI is a mission-driven program that reflects the City's commitment to address the unmet need for workforce housing in San Francisco. Building on existing tools and bond structures, WHAMI aims to simplify and expand the income requirements to leverage tax exempt financing at higher AMI levels (80%-120%), thus providing a path for the City to partner with the private sector on the production and financing of mixed and moderate-income housing.

Annual Median Income, by Household Size

	1 Person	2 People	3 People	4 People
Very Low-Income Households *Earn up to 55% of Area Median Income*	$47,400	$54,200	$60,950	$67,750
Low-Income Households *Earn up to 80% of Area Median Income*	$68,950	$78,800	$88,700	$98,500
Moderate-Income Households *Earn up to 110% of Area Median Income*	$94,800	$108,350	$121,950	$135,450
Middle-Income Households *Earn up to 130% of Area Median Income*	$112,050	$128,050	$144,100	$160,100

Much of San Francisco's workforce earns too much to qualify for low-income housing but is unable to afford market rate and is therefore pushed into lower rent markets, further from the city's job centers. The direct impact is evident in the staffing shortages across critical occupations like educators, healthcare workers, first responders, and artists who face long commutes. This jobs-housing imbalance is unsustainable, with implications to public safety, emergency response, greenhouse gas emissions reduction, and community well-being.

In response to the panel assignment, this memo summarizes a series of challenges that need to be addressed to minimize the financial, legal, and market risk of pursuing projects under WHAMI:

- Organizational participation and government capacity
- Uncertainties around possessory interest and administrative requirements
- Barriers to lease up and variable rent setting approaches

Annual Median Household Income Examples

3 person household at 85% AMI

An entry level police officer with a stay at home partner and child

$89,860

4 person household at 100% AMI

An entry level fire fighter and a childcare worker with two children

$117,300

3 person household at 120% AMI

A carpenter and a first year school social worker with a child

$130,037

Excerpt from 'SF Planning Affordable Housing Strategies Report' (2020). Technical Appendix - "Who lives in affordable housing" at 85%, 100%, and 120% AMI households.[B]

The financial scenarios that follow assume these uncertainties are resolved as follows:

- → WHAMI projects are deemed **exempt from possessory interest**, and can get property tax exemption for all units, including those above 80% AMI
- → The **only city requirements** are state prevailing wage and First Source Hiring
- → Rents are set at a **15% discount below market rate**

The findings from the financial model demonstrate that for both development scenarios—new construction and office-to-residential conversion—the projects could be feasible under WHAMI with the following gap financing needed as a supplement:

New Construction - 555 Beale St (228 units)

$43M Total Gap I $188k/unit I 30% total development costs

Office to Resi Conversion - 100 Bush St (305 units)

$63M Total Gap I $208k/unit I 35% total development costs

The feasibility gap is the difference between the total development costs and the total funds available via tax-exempt bond financing to achieve market returns. The total gap identified is well below the amount needed to fund traditional low-income housing projects, which need both tax-credit equity, state and local subsidies.

Market variables (interest rates and rent growth) could reduce the gap financing required, as shown through the sensitivity tests run by the panel as well. Since the time of the initial analysis of this TAP, rates have already dropped by 100 basis points, reducing the total gaps by more than one third. With a robust market driven process to ensure rapid implementation of WHAMI tied to interest rate movement; small changes have outsized impact.

While the gap financing needed, the model findings shows that unlike traditional models of affordable housing development assistance (via grants or tax credits), the gap financing becomes a funding source that is repaid during the bond term with a modest return on investment, making it a unique financing approach to new affordable housing production that can be recycled as a sustainable and permanent source of middle-income housing production.

The closing takeaways and actions are structured around three big ideas for how the WHAMI program could evolve to fulfill its goal of creating new moderate- and middle-income housing.

BIG IDEA: Establish a Financially Sustainable Structure for Public/Private Owned and Managed Workforce Housing (Social Housing)

Priority Action: Expand on Housing Trust Fund (HTF).

Supporting Action: Facilitate Market Competition.

BIG IDEA: Enable Public Ownership + Increase Management Capacity

Priority Action: Empower the Housing Authority.

Alternative/Supporting Actions: Pursue Alternative Ownership Structures.

BIG IDEA: Communicate Clear + Predictable Requirements

Priority Action: Resolve Possessory Interest Question

Priority Action: Define rent-setting requirements.

Supporting Action: Provide clear direction on city requirements.

Supporting Action: Establish dedicated City Expeditor for middle- or low-income housing projects.

TAP Assignment

This ULI TAP was convened to provide insight on the Workforce Housing and Affordable Middle-Income (WHAMI) legislation—its implementation challenges and financial feasibility. Passed in 2024, the act is designed to support the expansion of moderate-income or mixed-income housing within San Francisco. Specifically targeting households earning 120% of the Area Median Income (AMI) or below, with a project average of 100% AMI, the WHAMI legislation aims to create new tools to address the unmet need for housing at this income level.

Panel Process

The TAP panel was composed of real estate and land use professionals with expertise in the public sector, market rate and affordable housing development, economic strategy, residential architecture, and bond finance law. As background, the panelists were provided with a City-developed comprehensive briefing book to inform and assist with addressing the key panel questions:

1. What are **the legal issues that must be addressed** in order to make the program functional around contracting, lease-up processes, property taxes, bond issuance, and program administration?
2. How much **financial subsidy** in the form of property tax abatement, public land, subsidy loans, or other financial support is needed to make these projects feasible? What changes in market conditions would be necessary?
3. What **other legal entities or instrumentalities** would also allow a local public entity to directly own and take part in the development of real estate? What **legislative action** is needed to create or empower those options? What are the advantages, challenges or disadvantages to those structures compared to having the City directly be the owner and issuer under these bond options?

The first half day of the TAP began with a city briefing to provide additional background on WHAMI. For the remainder of the afternoon, the panelists interviewed a number of key stakeholders from the city and community. The insight gained from the interviews fed directly into brainstorming and analysis exercise, which established the framework upon which the panelists would formulate recommendations and update the factors and inputs in a financial feasibility model that the panelists had drafted prior to the TAP workshop.

The second day of the workshop was dedicated to further refinement and synthesis of the panelists' ideas, as each drew from their professional experience to provide a comprehensive set of recommendations. At the conclusion of the second day, the panelists presented their findings to those who had briefed the panelists on the first day. This memo culminates this TAP.

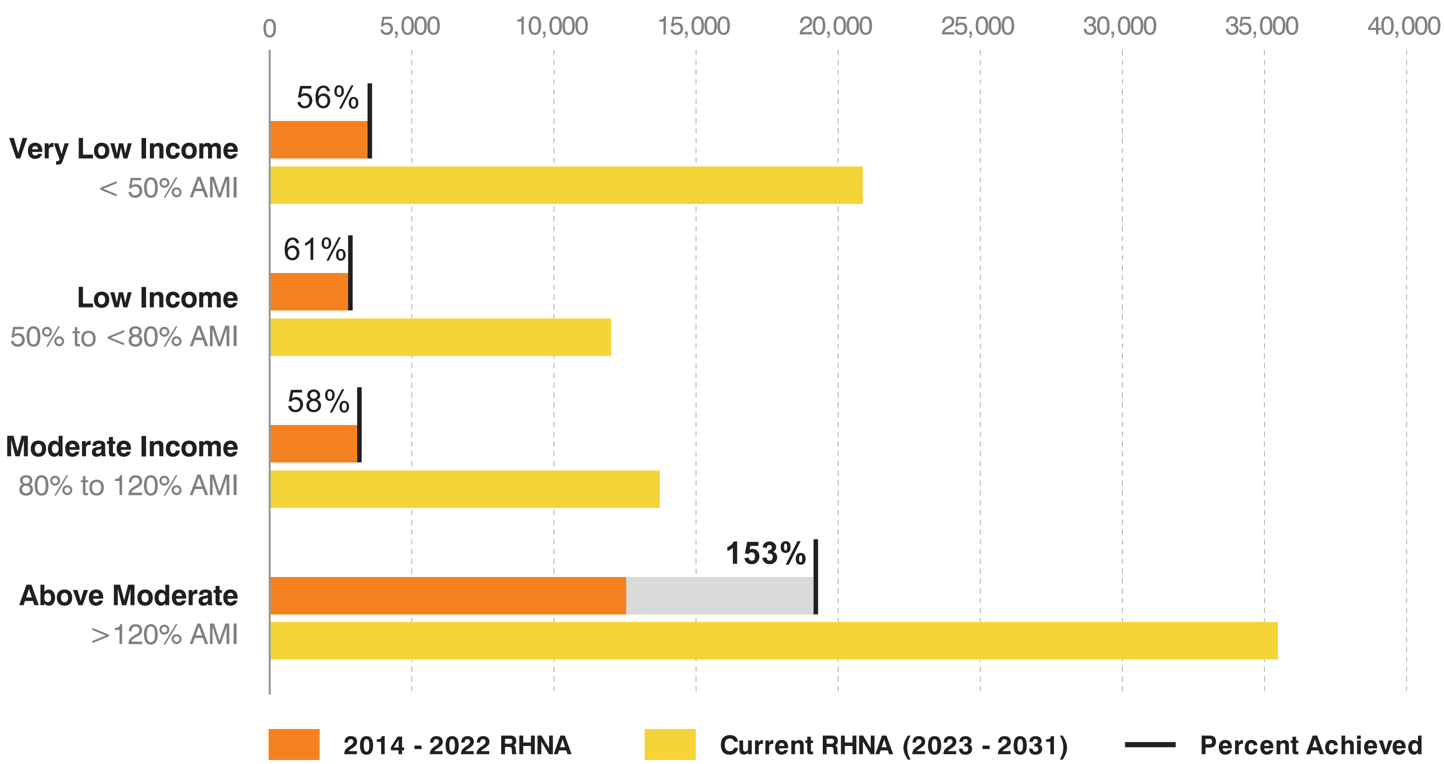
TAP Panelists working on recommendations.

WHAMI Overview

The WHAMI legislation is designed to enable the City to be a partner in addressing this middle-income gap. Based on current RHNA targets, there is a goal to create nearly 15,000 new moderate-income units (80% to 120% AMI)[1] and based on historic production levels,the private market will not be able to meet this goal alone. Built upon existing tools, WHAMI specifically targeted changes to laws around tax-exempt conduit bond issuance for housing as follows:

> *"The legislation impacts underlying Administrative Code language related to housing funded through 501(c)(3) Bond Issuances and Essential Function Bonds. The legislation limits these projects to households making 120% of the Area Median Income (AMI) or below, with a project average of 100% AMI. Rents must also be set 15% below current market levels. Any existing rent control protections would stay in place for acquisitions under the program and for newly restricted properties rent increases would be limited to the lesser of the annual increase in AMI or 4%. The legislation provides a number of carve outs from local procurement requirements. The program lists a set of low barrier income restrictions.*" (Briefing Book)

Compared to the pre-existing legislation for 501(c)(3) and Governmental (Essential Function) bonds, WHAMI simplifies and expands the desired income-set asides and rent restrictions; aims to ease certification and contracting requirements; and expands the possibility of property tax exemption for units above 80% AMI—those not already exempt under the Welfare Tax Exemption. The feasibility of each of these aspects of WHAMI will be discussed further in the following sections of the memo.



Excerpt from 'Affordable Housing Funding and Financing Recommendations Report' (Feb 2024). San Francisco 2023-2030 RHNA Goals Relative to 2015-2022 RHNA Goals and Progress. Source: Association of Bay Area Governments (ABAG), SF Planning.[C]

Challenges to Address

While 501(c)(3) and Governmental bond financing itself isn't new, WHAMI specifically aims to harness this financing structure for the creation of new moderate- and middle-income housing in San Francisco. There are a few examples that follow a similar model, such as the Housing Opportunities Commission of Montgomery County, Maryland, where the government agency is actively involved in the financing and long-term ownership of its 'social' housing projects.[2] But at less than a year old, WHAMI remains an untested tool.

The panel therefore began its assessment with a summary of potential challenges to the implementation of WHAMI, serving as the basis for recommendations and additional opportunities to follow. Drawing from direct professional experience and based on input received from stakeholder interviews, the panel identified the following categories of risk.

Financial Risk + Organizational Participation

501(c)(3) Bonds

There are existing 501(c)(3) entities in San Francisco that would be eligible to pursue 501(c)(3) bond financing - with or without WHAMI. However, it is a complex model that would require an organization to have a deep balance sheet in order to cover the financial risk, which may impede participation.

The requirement of 75% of units to be at 80% AMI or below can present financial challenges, on top of market-related risks (described below). These risks are compounded in acquisitions of occupied properties for affordability preservation purposes, which would require bringing existing tenancy into AMI compliance within a specific time frame. WHAMI expands income eligibility for 501(c)(3) bond-funded projects, and particularly increases permissible AMI bands for projects developed by 501(c)(3) entities with the IRS determination of "lessening the burden of government". However, it is unclear how many such organizations are currently operating in San Francisco.

Ultimately, the panel emphasizes that addressing the combined financial risk of upfront costs and market uncertainty (see below) will be essential to engaging any existing 501(c)(3) organization on a WHAMI project. Alternatively, the City or its Housing Authority could consider the creation of its own 501(c)(3) in order to utilize this particular bond financing type.

Governmental Purpose Bonds

The second type of bond financing—governmental purpose or essential function—would instead rely on building capacity within existing government organizations, or creating a new government structure to serve in that agency role.

Today, the organizational capacity doesn't exist to form and oversee partnerships for pre-development, development, and operations nor would agencies such as SF MOHCD be in a position to assume the financial risk of ownership. Additionally, there are potential issues with investor confidence related to City procurement requirements and long-term asset management (i.e., rent increases) being subject to political pressures.

The panel identified a number of alternate structures that could create capacity while simultaneously providing a buffer to shield the City from financial risk and the entity from political influence. The following list of potential structures include JPAs between existing organizations as well as the restructuring or creation of a dedicated agency.

- *JPA between BAHFA + City:* Mission priority of BAHFA is consistent with WHAMI priorities; however, their mandate goes beyond the City and County of San Francisco. The City attorney would need to advise on whether BAHFA constitutes a 'City of San Francisco' entity under WHAMI. If so, or if the legislation could be amended, then BAHFA could serve as the bond issuing agency on its own as well.
- *JPA between Housing Authority + City:* Additional staffing capacity could still be provided through a contract with BAHFA (or other organization) for asset management / development.

- *SF Housing Authority:* Created for this type of work, however based on the challenges the Housing Authority has experienced in the past, restructuring the agency would be necessary for it to fully serve this role.
- *New Downtown Development Authority:* Alternative to restructuring the existing Housing Authority, this could be established with a dedicated focus area and/or mission

Legal Risk + Administrative Clarification

The two most powerful aspects of the WHAMI program are to minimize upfront administrative requirements and expand property tax exemptions to higher AMI levels. However, the legal risk and lack of certainty around both of these benefits pose a major challenge at this time.

Joint Powers Authorities (JPAs) Context:

Recent efforts to create or preserve middle-income housing in California through specially created Joint Powers Authorities that enable property tax exemptions have run into trouble. These difficulties have resulted from (a) projects not realizing anticipated rent growth, saddling public entities with debt and (b) acquisition of existing multifamily housing, resulting in foregone property taxes and city resources that exceed the annual reduction in rents. Application of WHAMI, especially based on the directives below, should avoid these pitfalls by underwriting at rents that are at least 15% below market, and focusing on new housing construction or adaptive reuse.

	501(c)(3)	Governmental	501(c)(3) WHAMI	501(c)(3) "lessen burdens of gov" WHAMI	Governmental WHAMI
Income Set-Asides	75% at 80% AMI and 20% @ 50% AMI or 40% @ 60%AMI	None	Max 120% AMI and 75% at 80% AMI and 20/50 or 40/60 Avg income no greater than 100% of AMI Clarify that TCAC incomes will be the max, rather than City.	Max 120% of AMI Avg income no greater than 100% of AMI Clarify that TCAC incomes will be the max, rather than City.	Max 120% of AMI Avg income no greater than 100% of AMI Clarify that TCAC incomes will be the max, rather than City.
Rent Restrictions	Yes	None	Limit rents to max 30% of 120% of AMI Initial rent restricted to lesser of (1) 30% of AMI or either (A) 15% below market or (B) avg 10% below Small Area FMR Limit rent increase to lesser of annual % change of 100% AMI from prior year or 4% Clarify that TCAC rents will be the max, rather than City.	Limit rents to max 30% of 120% of AMI Initial rent restricted to lesser of (1) 30% of AMI or either (A) 15% below market or (B) avg 10% below Small Area FMR Limit rent increase to lesser of annual % change of 100% AMI from prior year or 4% Clarify that TCAC rents will be the max, rather than City.	Limit rents to max 30% of 120% of AMI Initial rent restricted to lesser of (1) 30% of AMI or either (A) 15% below market or (B) avg 10% below Small Area FMR Limit rent increase to lesser of annual % change of 100% AMI from prior year or 4% Clarify that TCAC rents will be the max, rather than City.
City Contracting provisions	Required	Required	Not subject to City under Admin Code Ch. 6 or public competitive bidding for contracts Need to proactively clarify what is required, recommend that it is State Prevailing Wage and First Source only for initial construction/rehab only. No other requirements.	Not subject to City under Admin Code Ch. 6 or public competitive bidding for contracts Need to proactively clarify what is required, recommend that it is State Prevailing Wage and First Source only for initial construction/rehab only. No other requirements.	Not subject to City under Admin Code Ch. 6 or public competitive bidding for contracts Need to proactively clarify what is required, recommend that it is State Prevailing Wage and First Source only for initial construction/rehab only. No other requirements.
Public Utilities	Required	Required	Only required if feasibility study deems benefit	Public utilities only required if feasibility study deems benefit Consider removing any discretionary approval for this exception.	Public utilities only required if feasibility study deems benefit Consider removing any discretionary approval for this exception.
Income Certification		Not applicable for federal tax purposes.	Streamlines income certification process and recertification limited to every five years; however, Welfare Tax Exemption requires annual Clarify DAHLIA not required, use self-certification allowed under LIHTC.	Streamlines income certification process and recertification limited to every five years; however, Welfare Tax Exemption requires annual Clarify DAHLIA not required, use self-certification allowed under LIHTC.	Streamlines income certification process and recertification limited to every five years; however, Welfare Tax Exemption requires annual Clarify DAHLIA not required, use self-certification allowed under LIHTC.
Property Tax Exemption (State law)	Units restricted 80% AMI or below exempt from property taxes (Welfare Tax Exemption)	Publicly owned facilities for public purposes exempt from property taxes Possessory Interest Tax not applicable to units for 80% or below AMI. Unclear of applicability to units above 80% AMI.	Units restricted 80% AMI or below exempt from property taxes (Welfare Tax Exemption) Opportunity to modify state law to allow full property tax exemption for units above 80% AMI.	Units restricted 80% AMI or below exempt from property taxes (Welfare Tax Exemption) Opportunity to modify state law to allow full property tax exemption for units above 80% AMI.	Publicly owned facilities for public purposes exempt from property taxes Possessory Interest Tax not applicable to units for 80% or below AMI. Unclear of applicability to units above 80% AMI.

Comparison of WHAMI bond requirements with existing 501(c)(3) and governmental bonds. (Refer to Appendix A: Comparison Matrix for more detailed analysis.)

Possessory Interest

Resolving the question of possessory interest is critical to achieving the full potential of the WHAMI program. As defined, "*A taxable possessory interest (PI) is created when real estate owned by a government agency is leased, rented, or used by a private individual or entity for their own exclusive use*."[3] The uncertainty lies in whether projects under WHAMI are subject to possessory interest, and therefore whether they'd be unable to fully realize property tax exemption (for units above the 80% AMI limit, as those affordable to households at or below 80% AMI would already benefit from the Welfare Tax Exemption).

Per State Law, units in a project that are restricted at or below 80% AMI are exempted from property tax under the **Welfare Tax Exemption**, with required annual tenant income certifications (Briefing Book).

Based on conversations with the City & County of San Francisco Office of the Assessor-Recorder, there is currently no path to guarantee property tax exemptions in advance—each project instead must undergo a case-by-case evaluation. The assessor advised the panel that either legal guidance or legislative changes at the state level would be required to shift this position.

There have been efforts in the past to bring similar tax exemption legislative requests to the state, but each has run into issues given the political complexity of the issue and concerns about loss of revenue from the tax roll. MOHCD is working with State Senator Weiner's office to again sponsor a targeted property tax exemption that would focus specifically on new production or conversion projects—the argument being that but for investment from programs such as WHAMI, the projects wouldn't exist to generate revenue, therefore there would be no loss. The City Attorney could also seek clarification from the state on WHAMI Property Tax exemption to establish a precedent for future projects.

In lieu of changes at the state level, the City could consider co-sponsoring legislation with the Office of the Assessor to proactively carve out an exemption for workforce housing as public infrastructure. The assessor could be actively involved in defining the limits of the legislation. Finally, the panel believes that pending litigation in Orange County over a related issue will go to court, with an outcome that could generate some legal clarification on the issue.

Administrative Requirements

In addition to possessory interest uncertainty, the panel also identified risk associated with the lack of clarity on some administrative requirements. The WHAMI legislation clearly waives Chapter 6 public bidding requirements which relieves some administrative burden on projects; however, it doesn't provide clear direction on public power requirements, labor standards, or other contracting, accounting, and procurement requirements.

The City can mitigate this risk with proactive statements that confirm the only requirements on WHAMI projects will be state prevailing wages, which are triggered by bond issuance and First Source Hiring, amending the language of the legislation as needed. This legislative clarification may also be needed for income certification and leasing requirements, as discussed below.

Market Risk + Lease Up Challenges

Unlike low-income housing, moderate- and middle-income housing have a unique set of challenges for leasing. While new construction is likely to be delivered at the top of the market, existing and older buildings may well be affordable to middle-income households. Households in this income range therefore have more options within San Francisco and in adjacent communities, while the income certification process adds an additional burden for tenants and makes it difficult for WHAMI projects to compete with market rate projects.

In some cases, market rate may in fact be lower than 80% AMI which can therefore present a serious risk to the owner in the event they are unable to lease up a project in a timely manner and/or secure sufficient rents to repay the bond. Similarly, this has created challenges for some JPA deals in other cities where market rates have declined below the initially assumed AMI.

To mitigate this risk and build in a buffer, the panel recommends that there should be an assumed 10-15% discount to market—regardless of AMI. The 15% discount to market is used in the financial modeling to follow, as the panel found it to be the most intuitive and provided a substantial enough discount to overcome marketing challenges. For example, as shown in the chart on page 10, this discount for a one-bedroom unit would amount to **$525 per month, or $6,300 per year.**

Regarding income certification, while the state Welfare Tax Exemption requires annual reporting for all units 80% AMI and below, this is not a widely known or accepted process for those households at the moderate-income level of 80%-120%. The panel heard concerns about the lengthy and complicated DAHLIA process the City currently uses for its certification process. WHAMI legislation already attempts to reduce recertification to every 5 years (when outside of Welfare Tax Exemption requirements), and the panel advises that this be expanded upon to provide a clear alternate path from DAHLIA. In conjunction, legislative clarification may be required to verify that WHAMI projects considered “100% affordable” by MOHCD are exempt from both inclusionary requirements as well as Chapter 47 preferences during lease up.

Lastly, the panel suggests that WHAMI allow for typical marketing and lease-up strategies such as rental promotion deals. The combination of these measures should provide these projects with more of a competitive edge against typical market rate.

Mission Rock Residential leasing imagery.[D]

Financial Test Scenario + Gap Analysis

While it can be used to support acquisition, the WHAMI program was designed to rapidly increase the creation of new moderate- and middle-income housing. Based on this goal, the panel selected two development scenarios to test the financial feasibility of WHAMI: new construction and office-to-residential conversion. To provide development inputs (sf, efficiency, unit mix) for the feasibility model, test fits were generated for both development scenarios.

Modeling Assumptions

Each of the two scenarios uses the following set of modeling assumptions:

- *Rents at 15% Discount to Market:* A handful of alternate potential definitions of rent levels associated with "100% AMI" may be applied under different circumstances in San Francisco, including those set by the State's Tax Credit Allocation Committee (TCAC), HUD's Small Area Fair Market Rents (SAFMR), and those measured by MOHCD. Presuming a market rate rent comparable to those shown here from Mission Rock's recently completed project, the TAP opted to model a 15% discount to market given the market risk described in the section above and because this value is comparable to or below the potential "100% AMI" rent targets. (The New Construction analysis also shows the gap under other rent assumptions, for comparison.)
- *Rent Growth at 3%:* This was selected as a conservative growth rate and sensitivity tests were run under each development scenario to model how different growth rates could impact the gap analysis.
- *OpEx Growth at 3%:* This was selected as a conservative growth rate.
- *Series A Bond Interest Rate at 6%:* This was selected as the best rate to reflect the current market and sensitivity tests were run under each development scenario to model how different interest rates could impact the gap analysis.
- *100% Property Tax Exemption:* Based on the possessory interest question being resolved for units above 80% AMI.
- *Administrative Requirements:* State prevailing wages and First Source Hiring requirements are included, while all other city requirements have been omitted from the model. (The New Construction analysis includes a scenario with no prevailing wage requirements as well, for comparison.)

Rent Comparison Table

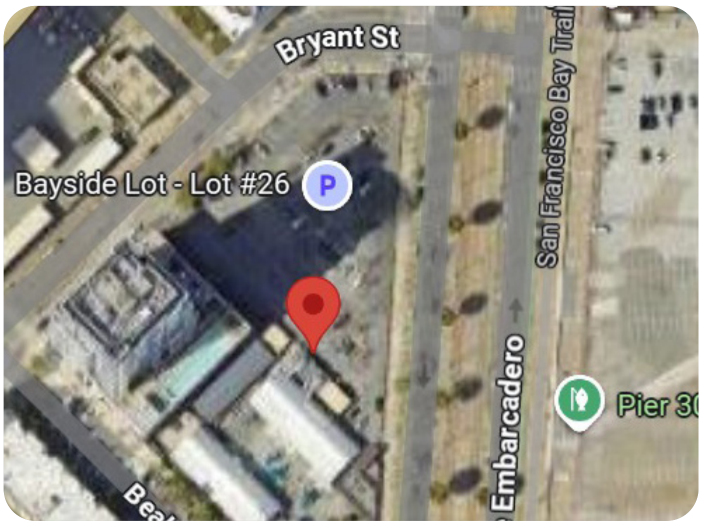
Unit Type	Market Rent	15% Discount	TCAC 100% AMI	10% Discount to SAFMR	MOHCD 100% AMI
Studio	$2,977	$2,530	$3,373	$2,718	$2,572
1-Bed	$3,574	$3,038	$3,599	$3,330	$2,925
2-Bed	$4,726	$4,017	$4,311	$3,969	$3,276
Total/Average	$4,058	$3,449	$3,908	$3,579	$3,060

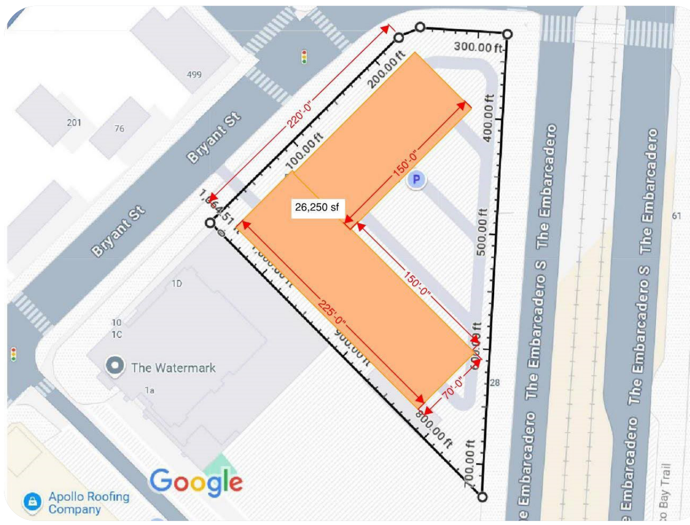
New Construction: 555 Beale St

The site for the new construction development scenario is 555 Beale Street. The city provided the panel with a range of potential publicly owned sites that have been identified in the Housing Element. Based on its parcel size and shape, location along the Embarcadero and proximity to Mission Rock, this Port-owned site has the potential to accommodate a WHAMI project of the following scale:

- *Site Area:* 75,000 SF
- *Building Footprint:* 26,000 SF
- *Construction Type:* Type III (8 stories)
- *Total Units:* 228

Existing parcel conditions.[E]



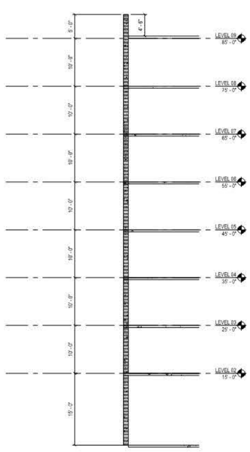


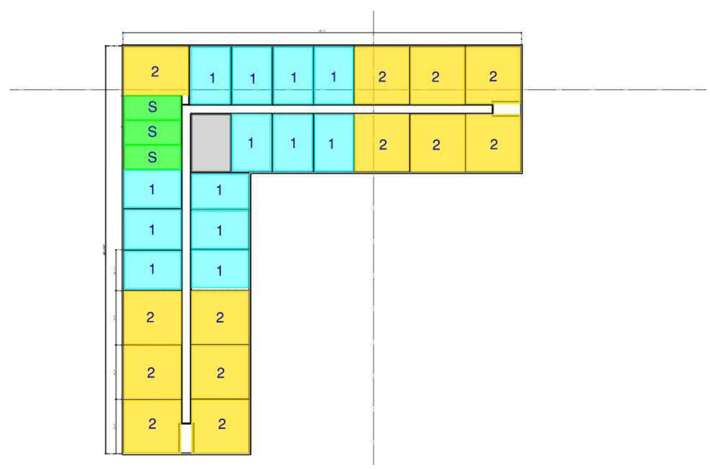
	UNIT MIX	UNITS / FLOOR
S	7%	2
1	47%	13
2	46%	13

28

7 FLOORS @ 28;
1 FLOOR @ 32

TOTAL = 228 UNITS





Test fit for 555 Beale Street site. Typical wall section and floor plan, results in 228 total units for the project.

The following show the total development costs, feasibility analysis, and comprehensive analysis of the additional funds ("gap") needed above what can be secured with debt/bonds (including alternate rent and requirement assumptions as noted above). For this scenario, the panel assumed the City-owned site would be contributed towards the public purpose of middle-income housing creation, and therefore, the land value is assumed to be $0.

Total Development Costs - 555 Beale		
	Per Unit	Total Project
Building Basis	-	-
Hard Costs	$493,500	$112,518,000
Soft Costs	$135,523	$30,899,300
Total Development Costs	**$629,023**	**$143,417,300**

Feasibility Analysis - 555 Beale		
	Per Unit	Total Project
Maximum Bond Amount	$440,894	$100,523,845
Total Development Costs	$629,023	$143,417,300
Feasibility Surplus/(Gap)	**($188,129)**	**($42,893,455)**

Feasibility Gap Analysis - 555 Beale		
	Feasibility Gap / Door	Total Project Gap
Market Feasibility Gap @ 6% ROC Threshold*	($257,126)	($58,624,808)
WHAMI at 15% Discount to Market	($188,129)	($42,893,455)
10% Discount to Small Area for Market Rents	($170,032)	($38,767,217)
California Rent Limits for San Francisco (TCAC)	($124,020)	($28,276,615)
MOHCD Rents	($242,411)	($55,269,604)
Market Rent with Bond Financing	($103,115)	($23,510,263)
Market Rent with Bond Financing, Non Prevailing Wage	($18,899)	($4,309,018)

Based on this feasibility analysis, the total gap funding required for the construction of 555 Beale is **$43M (or $188k/unit; 30% of total cost).**

When compared against conventional market-rate projects which typically have an equity requirement of 40-50% of total development costs, it's evident that the 30% gap achieved through WHAMI legislation can help achieve financial feasibility. Additionally, this analysis also finds that the project can deliver the following returns on the gap financing:

Return Metrics - 555 Beale	
IRR Over 35 Years:	6.7%
Total Returns:	**$192M**
Equity Multiple:	4.48
Payback Period:	18 Years

The model was also run through a sensitivity analysis to test different rent growth and/or interest rate scenarios. As shown in the chart, the gap funding required could be reduced substantially by additional changes to the market, with no gap if year 1 market rents were to increase by 9% and interest rates were to simultaneously drop to 4.0%. In fact, since the time of the original analysis, rates have dropped by 100 basis points, reducing the total gap from $43mm to about $28mm for the 228 unit multifamily building, further accelerating the time to repay the entire gap financing and improving the return on investment.

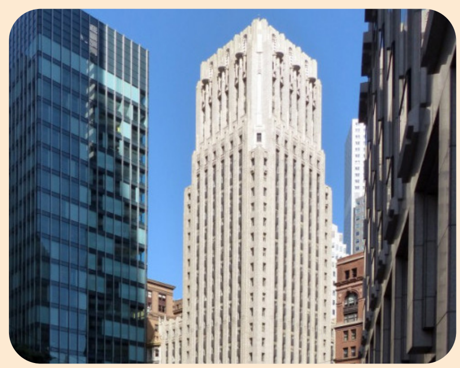
Feasibility Gap Per Door - 555 Beale

		Series A Bond Interest Rate				
	($188,129)	**6.00%**	**5.50%**	**5.00%**	**4.50%**	**4.00%**
Market Rate Rent Increase on Today's Rents	**0%**	($188,129)	($157,937)	($124,273)	($86,636)	($44,439)
	3%	($173,676)	($142,413)	($107,555)	($68,579)	($24,887)
	6%	($159,228)	($125,889)	($90,833)	($50,523)	($5,329)
	9%	($144,775)	($111,365)	($74,115)	($32,466)	$14,223
	12%	($130,323)	($95,837)	($57,393)	($14,409)	$33,781

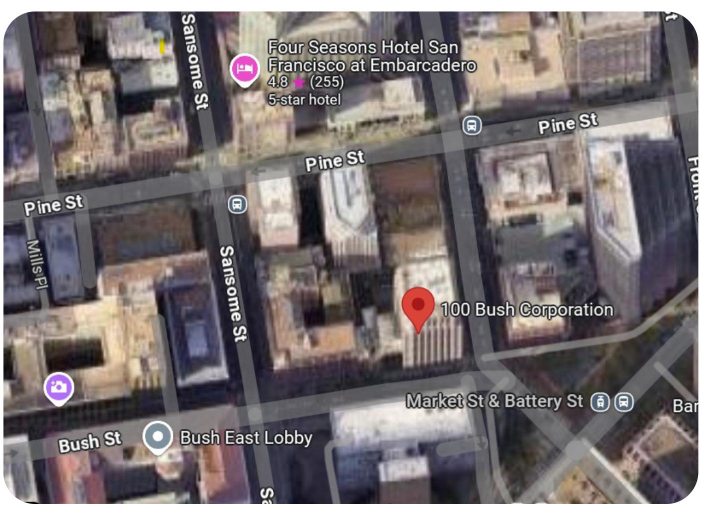
Office-to-Resi Conversion: 100 Bush St

The site for the adaptive reuse, office-to-residential conversion, is 100 Bush Street. This was identified as an ideal site for conversion in a study completed by Gensler in 2022 for ULI and SPUR that considered potential candidates within the Downtown. As a pre-war building, 100 Bush has relatively small floor plates with natural light and a central core which is good for residential units.

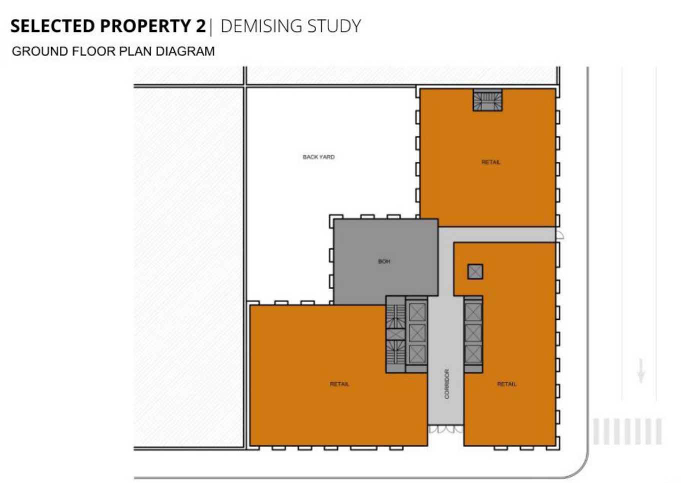
- *Building Height:* 28 stories (10 stories at base; plus 18 story tower)
- *Building Total GFA:* 233,654 SF
- *Total Units:* 305 units



100 Bush St - Shell Building[F]



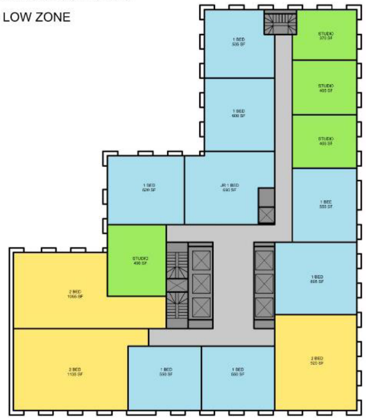
100 Bush Street location in the heart of Downtown San Francisco



Diagrammatic site plan for ground floor from Downtown SF office-to-residential repositioning study completed by SPUR; Gensler.[G]

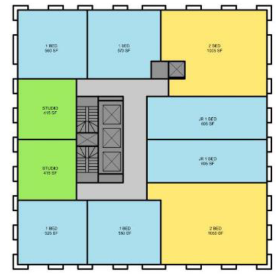
SELECTED PROPERTY 2 | DEMISING STUDY

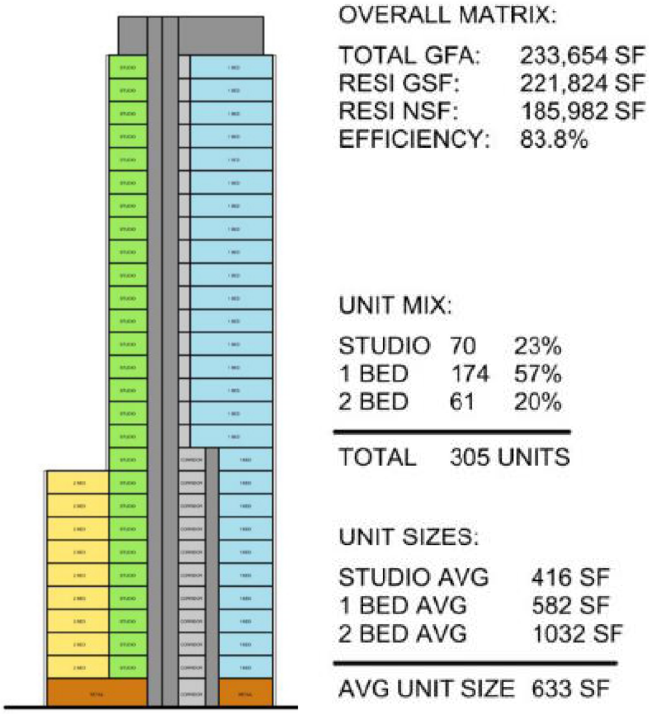
TYP FLOOR DEMISING DIAGRAM – LOW ZONE



SELECTED PROPERTY 2 | DEMISING STUDY

TYP FLOOR DEMISING DIAGRAM – HIGH ZONE





Test fit for 100 Bush from Downtown SF office-to-residential repositioning study completed by SPUR; Gensler.[G] Diagrammatic typical low/high zone plans and overall section determine overall unit count and mix per floor.

The following show the total development costs, feasibility analysis, and comprehensive gap analysis.

Total Development Costs - 100 Bush		
	Per Unit	**Total Project**
Building Basis	$126,780	$38,668,000
Hard Costs	$361,972	$110,401,384
Soft Costs	$108,062	$32,958,809
Total Development Costs	**$596,814**	**$182,028,193**

Feasibility Analysis - 100 Bush		
	Per Unit	**Total Project**
Maximum Bond Amount	$388,624	$118,530,275
Total Development Costs	$596,814	$32,958,809
Feasibility Surplus/(Gap)	**($208,190)**	**($63,497,918)**

Feasibility Gap Analysis - 100 Bush

	Feasibility Gap / Door	Total Project Gap
WHAMI at 15% Discount to Market	($208,190)	($63,497,918)

Based on this feasibility analysis, the total (upfront capital) gap funding required for the construction of 100 Bush is: **$63M (or $208k/unit, 35% of total cost).**

Given the cost to acquire the land, this is higher than new construction on a publicly owned site but there are the following returns on the gap financing:

Return Metrics - 100 Bush

IRR Over 35 Years:	5.5%
Total Returns:	**$226M**
Equity Multiple:	3.56
Payback Period:	20 Years

A sensitivity analysis was conducted to test different rent growth and/or interest rate scenarios. As shown in the chart, the gap funding required could be reduced substantially by additional changes to the market.

Feasibility Gap Per Door - 100 Bush

		Series A Bond Interest Rate				
	($208,190)	6.00%	5.50%	5.00%	4.50%	4.00%
Market Rate Rent Increase	0%	($208,190)	($181,578)	($151,904)	($118,731)	($81,536)
	3%	($195,128)	($167,545)	($136,792)	($102,409)	($63,861)
	6%	($182,066)	($153,515)	($121,680)	($86,090)	($46,187)
	9%	($169,004)	($139,482)	($106,567)	($69,768)	($28,513)
	12%	($155,942)	($125,452)	($91,455)	($53,449)	($10,839)

Additional Development Opportunities

The financial analysis for 555 Beale and 100 Bush show examples of potential WHAMI projects for new construction on publicly owned land and office-to-residential conversion. Similar new production on vacant parcels or conversion of distressed class b/c office buildings should be the priority for WHAMI—projects which should have minimal impact on tax rolls (as distinct from acquisition of existing multifamily). While it was not within the scope of the panel to quantify anticipated fiscal impacts, the case can be made that these assets would not be created but-for the opportunity presented through WHAMI, resulting in a positive net impact for the City and County.

There are additional opportunities worth consideration under the program as well. For example, the panel recommends considering stalled ground-up projects in the pipeline—many of which have already been identified by staff. There also may be acquisition or repositioning projects that would still have a limited impact to the tax rolls through the following strategies:

- Recapitalize expiring LIHTC properties
- Reposition Redevelopment Authority projects

Key Takeaways + Priority Actions

The findings of the TAP support the potential for WHAMI legislation to facilitate the creation of new moderate- and middle-income housing. The development test scenarios identify the need for gap funding in order to make WHAMI projects financially feasible; however, they also demonstrate the potential for a modest return on investment over time as compared to current affordable housing models where the gap financing is never repaid. Based on this analysis and the corresponding risk assessment, the panel recommends the following set of ideas and actions to expand potential for the WHAMI legislation to increase the availability of middle-income housing in San Francisco.

BIG IDEA: Establish a Financially Sustainable Structure for Public/Private Owned and Managed Workforce Housing (Social Housing)

Priority Action: Expand on Housing Trust Fund (HTF).

Reframing workforce housing as a form of infrastructure, essential to the function of the city, makes the communication case for annualized city investment in its financing. Like infrastructure investment, the gap funding required could be financed through funds from the Housing Trust Fund established by Mayor Lee's administration that will earn a modest return that can in turn be recycled into new WHAMI developments.

In order to manage the return of and on that investment, however, a public-private partnership could create a Workforce Housing Investment Fund to solicit third party investment and provide a sustainable ongoing source of middle-income equity financing. This would serve as a vehicle for private investors to achieve a risk-adjusted return. Additionally, returns could ease financial risk by providing resources for the following:

- 'First Loss' lending to cover initial costs
- Incentives for for-profit developers and non-profit developers to secure sites and entitlements
- Pre-construction assistance

The Montgomery County example in Maryland has demonstrated the success of this social housing concept with the recently completed Laureate middle-income housing project, the first to be financed with the established equity fund.[4] This structure has allowed the local government to invest more directly in this type of project in order to address its housing shortage and earn a modest return on its investment, not just a unrecoverable grant or subsidy, much like the model presented here.

There is risk associated with the creation and management of a housing trust fund, however one strategy to mitigate the financial risk for the city itself would be to engage philanthropic equity groups to provide seed money. The San Francisco Bay Area has several potential philanthropic entities that have previously contributed to the creation of housing—Crankstart, Apple, Schwab, and Chan Zuckerbeg Initiative, to name a few.

Over time, surplus returns from completed projects will create ongoing cash flow for the trust and could also be used to pay back long term seed money loans.

Supporting Action: Facilitate Market Competition
(see page 9 for more)

Under this system, it would still be important to allow for typical marketing and lease-up strategies as well as an alternative path for income verification such that WHAMI projects can compete with market rate options. Maintaining competitive rents and high occupancy will help to support the trust fund.

BIG IDEA: Enable Public Ownership + Increase Management Capacity

Priority Action: Empower the Housing Authority.

Restructuring the existing Housing Authority to expand capacity for the city to take on more of an active management or ownership. Perhaps through leadership of the Housing Trust Fund.

Alternative/Supporting Actions: Pursue Alternative Ownership Structures *(see page 6/8 for more)*

- JPA between BAHFA + City
  - Third party development and management similar to current arrangement with nonprofit housing organizations
- JPA between Housing Authority + City
  - Contract with BAHFA or 3rd party for asset management / development
- NEW Downtown Development Authority focused on office-to-residential conversion
- City or Housing Authority Created 501(c)(3)

BIG IDEA: Communicate Clear + Predictable Requirements

Priority Action: Resolve Possessory Interest Question *(see page 8 for more)*

The biggest challenge to overcome, from a legal perspective, is the lack of certainty regarding whether WHAMI projects can get property tax exemptions above 80% AMI (as modeled in the analysis). Resolving this uncertainty is key to attracting developers and ensuring investor confidence. This is an opportunity to clearly define why WHAMI projects do not result in possessory interest; rather that housing qualified middle-income workforce is tantamount to governmental purpose. The following are options discussed in the earlier section for how to do so:

- Co-sponsored legislation with Assessor's office which may include as criteria:
  - Only new production or adaptive reuse to housing
  - To be the lesser of 15% below fair market value or CTCAC AMI Average
- City Attorney seeking clarification
- Waiting out resolution of JPA court cases

Priority Action: Define rent-setting requirements *(see page 10 for more):*

As shown in the rent comparison analysis, the assumed rent approach has a large impact on the gap financing required to make a project feasible. The flexibility on rent-setting within the WHAMI legislation introduces uncertainty into the financial analysis, and could be clarified as follows:

- Standardize use of CTCAC (State) AMI rather than City
- Re-examine the "third party market appraisal" required to use the discount to market approach
- Define rent increase structure following project creation to mitigate public benefit concerns

Supporting Action: Provide clear direction on city requirements *(see page 8 for more):*

- Procurement/contracting
- Labor standards
- Public power
- Income verification (alternate path to DAHLIA)
- Inclusionary criteria and Chapter 47 preferences at lease-up

Supporting Action: Establish dedicated City Expeditor for middle- or low-income housing projects

Cities such as San José and Los Angeles have utilized this approach to streamline the entitlement, permitting, and construction of housing projects.

About the Panel

Kate Collignon, Managing Partner, HR&A Advisors (TAP Panel Co-Chair)

Kate Collignon helps communities implement inclusive economic growth and development strategies. Drawing on over 20 years of experience in the public and private sectors, she provides the economic insights and builds the partnerships needed to deliver community goals. Kate's career has spanned management of some of the most complex public and private development initiatives in New York City, to cultivation of economic turnarounds in small and mid-sized cities across the Midwest, to strategies for downtown and office adaptation nationwide. Throughout, her work has paired physical investment strategies with public policies, programs and processes that promote equitable participation in economic growth.

Prior to joining HR&A, Kate managed pre-development for Manhattan West and other mixed-use projects as Development Director with Brookfield Properties and led large-scale planning and development initiatives in Downtown Brooklyn, Coney Island, at Brooklyn Bridge Park, and across New York City as Senior Vice President for Development at the NYC Economic Development Corporation.

Kate recently Co-Chaired the ULI Advisory Services Panel for San Francisco's Downtown Revitalization and serves on the Executive Board of ULI SF as well as the Board of Lambda Alpha International's Golden Gate Chapter. She previously served on the faculty of the NYU Wagner Graduate School of Public Service, and holds a Master's in Public Policy and Urban Planning from the Kennedy School of Government at Harvard University.

Eric Tao, Managing Partner, L37 Development (TAP Panel Co-Chair)

Eric brings more than 20-years of leadership experience in the real estate industry managing over $1 billion in new developments including 2,000 multifamily units and mixed-use assets in the San Francisco Bay Area.

Eric is the Managing Partner of L37 Development. As the founding principal at Avant Group (AGI), he managed multifamily development investments for two CalPERS funds and several smaller family offices.

Eric is a graduate of Pomona College in Claremont, CA and received his Juris Doctorate from UC Hastings College of Law. He is the immediate past chair of the ULI San Francisco District Council and on the Board of SPUR.

Holly Arnold, AIA, LEED AP, Residential Practice, Northwest Leader and Architect, Gensler

Holly Arnold is an architect with Gensler in San Francisco and leads Gensler's Residential Practice for the Northwest region. Holly has spent most of her career focused on residential architecture around the Bay Area and across the country. She is passionate about designing housing for all people, from luxury high-rise communities to interim supportive housing.

With over 25 years of experience, Holly has led many teams through complex residential projects, large and small. She enjoys the unique challenges of each new project and applying ideas and thinking with the strength of the team to arrive at creative solutions for clients. Holly believes that the spaces we live and work in are essential to our happiness and wellbeing. Through design, she believes that architecture has the power to impact lives and lift the human spirit.

Jonathan Fearn, Sr. Vice President, Development, Signature Development Group

Jonathan Fearn is Sr. Vice President, Development with Signature Development Group, an Oakland-based development firm specializing in the acquisition and development of commercial, residential, mixed-use, master-planned and adaptive reuse properties. Prior to his current role, Jonathan was Head of Development of Oak Impact Group, a locally based investment and development firm, and has spent over 15 years in institutional scale residential development – serving as Managing Director of Greystar, where he oversaw all development activities for Greystar in Northern California – a pipeline of over 5,000 units and $3B in value, and as Vice President at SummerHill Housing Group. Jonathan spent his early career working for Em Johnson Interest, a development firm that specialized in affordable housing and economic development projects within low-income communities.

Jonathan recently completed a seven-year stint as a member of the Oakland Planning Commission. He also serves a board member of MidPen Housing, Housing Trust Silicon Valley, Housing Action Coalition, and the Council of Infill Builders. He was formally a Co-Chair of the AllHome Regional Impact Council (RIC) – a roundtable of stakeholders convened to address housing insecurity and homelessness, and a founding member of the Casita Coalition, a non-profit created to advocate for ADUs and small building forms.

Brynn McKiernan, Vice President, Development, Emerald Fund, Inc.

Brynn McKiernan is the VP of Development at Emerald Fund, Inc., financing and managing the development of multifamily projects in San Francisco. Brynn has over a decade long planning and development track record and stretches from her work as a land-use consultant at Raimi + Associates working on long-range plans throughout the Bay Area and California, to successfully navigating the planning and entitlement process during her tenure at Rhoades Planning Group. At Emerald Fund, she brings a unique understanding of planning, sustainability, equity, and development to her projects and professional interactions. Brynn has a Masters in Real Estate Development + Design from the University of California, Berkeley, and an undergraduate degree in Urban and Regional Planning from Cal Poly-Pomona.

Andrea Osgood, Chief of Real Estate Development, Eden Housing

Andrea leads Eden's team of more than 30 development professionals who are advancing a pipeline of nearly 5,000 affordable homes across three regional offices. She provides executive oversight of over 1,300 units under construction with cumulative budgets over $800 million and directs Eden's new business strategy, real estate acquisitions and portfolio renovation efforts. In addition to her department leadership responsibilities, Andrea is a member of Eden's executive team that oversees the growth, management and strategic guidance of a company of over 500 employees.

Andrea has significant experience in construction management, construction litigation and public contracting. She worked as a construction management consultant for Capital Projects of UC Berkeley where she was involved in large rehab and new construction projects – from planning and development through funding and construction. Additionally, she was a lead paralegal in the construction group at Hanson Bridgett Marcus Vlahos & Rudy, a San Francisco law firm.

Andrea serves as Treasurer of SV@Home, a housing advocacy organization in Santa Clara County and is a past Board Chair of the Housing Leadership Council of San Mateo County.

Andrea Osgood earned her Bachelor of Arts (BA) with Honors from Pomona College and a Master of Arts in Urban Planning from the UCLA Graduate School of Public Policy and Social Research.

Michelle Pernicek, Partner, Kutak Rock LLP

Michelle E. Pernicek is a partner in the Omaha office of Kutak Rock LLP and a member of the firm's public finance group. Ms. Pernicek represents clients in various types of public finance transactions, primarily serving as bond counsel and lender's counsel in multifamily housing financings across the country. Since 2017, she has assisted with the firm's lead bond counsel representation of the City and County of San Francisco and the Mayor's Office of Housing and Community Development in connection with the issuance of several multifamily housing revenue bonds.

Michelle is admitted to practice in California and Nebraska. Prior to joining Kutak Rock, she served as a law clerk to the Honorable Frankie J. Moore of the Nebraska Court of Appeals. Ms. Pernicek earned her bachelor's degree from Georgetown University in 2007 and her J.D., with distinction, from the University of Nebraska College of Law in 2010.

Mariana Ricker, Associate Principal, SWA San Francisco (TAP Memo Writer)

Mariana has been with SWA San Francisco since 2016 and became an Associate Principal in 2024. While in school, she received her bachelor's degree in landscape architecture with minors in sustainable design and conservation resource studies. Mariana is passionate about California landscapes and emphasizes the importance of site-specific, sustainable landscape design. She enjoys working in urban settings that engage diverse user groups and activate spaces essential to civic life.

In her work as a licensed landscape architect, Mariana seeks to create memorable experiences, connect people to the environment, and provide elegant solutions to accomplish the project vision. At SWA, she works on a wide range of projects, from community parks to district-scale urban development and planning around the Bay Area and beyond. Mariana is committed to climate action and advancing sustainability efforts within her project work and professionally. Additionally, she is an active ULI member, serving as Co-Chair for the local Technical Assistance for Communities (TA4C) committee, and holding a position on the national Sustainable Development Council.

Appendixes & Sources

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