

Not So Affordable: Alternative Solutions to Developing Affordable Homes

THE REGIONAL STEERING COMMITTEE
ON HOMELESSNESS & HOUSING

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Building affordable housing, especially for communities in the Bay Area, is expensive. In this current environment, where land is expensive and scarce, Bay Area cities have taken varying approaches to supply affordable housing. This memo will discuss new solutions to affordable housing development and examine the pros and cons of these approaches. Examples include cities in Oregon, Washington, and California, including San Francisco, San Jose, Oakland, and other surrounding Bay Area communities.

NOT SO AFFORDABLE HOUSING IN THE BAY AREA?

San Francisco and the surrounding Bay Area have long been expensive communities, but in the last several years, San Francisco and neighboring communities have witnessed an extreme affordable housing crisis.¹ As of early 2014, rents in San Francisco were three times higher than the national average.² The median market rate rent is now \$3,600 per month in San Francisco, and \$2,700 in the San Francisco metro area.³ Rents are up almost 17 percent from the year before.⁴ Even though San Francisco has the highest minimum wage in the country, it would still take at least 4 full time minimum-wage jobs to afford the average rent in San Francisco.⁵ The affordable housing crisis is not isolated to the City of San Francisco, but affects the entire region. Rents in Oakland jumped 10 percent from March 2013 to March 2014 to \$2,054.⁶ The average rents in the San Jose metro area are similarly high at \$2,856 a month (for more detailed figures, see Table 1).⁷ Recent studies have shown that the San Francisco metro area is now the least affordable housing market in the nation. Only 14 percent of homes for sale are affordable at the median household income (\$78,840 in the San Francisco metro area).⁸ The San Jose metro area ranks as the 6th least affordable metro area in the nation where only 31% of homes are affordable.

ENCOURAGING AFFORDABLE HOUSING IN SAN FRANCISCO

With most market rate housing out of reach for the middle-class, affordable housing is also out of reach because there is not enough supply. In reaction to the California State Redevelopment Agency dissolution, San Francisco voters created the Housing Trust Fund in 2012 to help fund affordable housing projects and create more affordable housing.⁹ Even though the Housing Trust Fund has helped support several affordable housing projects, supply remains limited. For example, when a new affordable housing project

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- 2 Erwert, Anna Marie. S.F. rents up more than 3 times higher than national average, at: <http://blog.sfgate.com/ontheblock/2014/01/30/s-f-rents-up-more-than-3-times-higher-than-national-average/#20080101=0&20081103=0&20082105=0>.
- 3 Zillow Home Value Index. San Francisco Home Prices & Values, at: <http://www.zillow.com/san-francisco-ca/home-values>.
- 4 Kolko, Jed. Home Prices and Population Growth: Cities vs Suburbs, at: <http://www.trulia.com/trends/2014/04/price-and-rent-monitors-mar-2014/>.
- 5 Wilkey, Robin. San Francisco Minimum Wage Increase Makes it Highest In The Nation, at: http://www.huffingtonpost.com/2013/01/02/san-francisco-minimum-wage_n_2397920.html; http://sfist.com/2013/09/18/map_you_d_need_to_work_5_minimum_wag.php
- 6 <http://www.zillow.com/oakland-ca/home-values/>
- 7 <http://www.zillow.com/san-jose-ca/home-values/>
- 8 <http://www.trulia.com/trends/2013/10/middle-class/>
- 9 City & County of San Francisco Office of the Mayor. Mayor Lee Announces First Investment in Affordable Housing & Down Payment Assistance Funding From Housing Trust Fund, at: <http://www.sfmayor.org/index.aspx?page=846&recordid=186&returnURL=%2Findex.aspx>.

opened in South of Market Street (SOMA) neighborhood this year, 2,800 people applied for the 60 units.¹⁰ Similarly, in April of 2014, 2,100 people applied for 200 affordable housing units in a Bayview neighborhood development.¹¹ To help hasten the creation of additional affordable housing, San Francisco Mayor Edwin Lee implemented an accelerated review and approval process for housing, prioritizing affordable housing projects.¹²

San Francisco officials have considered additional ideas. For example, San Francisco has examined the idea of using surplus city property for affordable housing. In December 2013, San Francisco entered into a “land swap” with the San Francisco United School District (SFUSD).¹³ SFUSD traded several underutilized land parcels to the City of San Francisco in exchange for a property it currently rents from the city and \$4.5 million. San Francisco will use the empty lot to build 115 units of affordable housing. Additionally, some members of the San Francisco Board of Supervisors have proposed legislation that would preserve the ratio of 30 percent below-market-rate housing in certain neighborhoods.¹⁴ This would require future developments to maintain that ratio of below-market-rate housing or alternatively acquire conditional-use permits.

Because of these many challenges communities face in creating affordable housing, several organizations and cities are experimenting with innovative and interesting ideas.

OAKLAND, CALIFORNIA HOTEL CONVERSION TO PERMANENT SUPPORTIVE HOUSING

Oakland-based non-profit developer Satellite Affordable Housing Associates (SAHA) came together with the City of Oakland and ten financing agencies to redevelop two century-old hotels into modern studio apartments for Permanent Supportive Housing.¹⁵ One of SAHA’s housing properties, The Oaks Hotel, a century-old structure used for the last two decades as an SRO hotel, was in need of renovation to keep with contemporary standards of care and safety. SAHA wanted to convert the SRO-style rooms into 100 self-sufficient studio apartments. However, creating the economies of scale to secure financing was difficult. When SAHA bought the Jefferson Inn, another century old hotel located next door, it was then able to achieve the economies of scale needed for the renovation and construction. SAHA approached the Oakland Housing Authority (OHA) to partner with on the project and the OHA committed \$3 million for acquisition and development financing as well as a commitment for Project Based Section 8 rental subsidies. The project prioritized existing residents from the conversion to avoid displacing them and all additional units are now fully occupied.

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11 Weintraub, Adam. Desperate for affordable housing, 2,100 applicants vie for 200 apartments in Bayview, at: http://www.bizjournals.com/sanfrancisco/blog/real-estate/2014/04/bayview-candlestick-heights-affordable-housing.html?ana=e_du_wknd&s=article_du&ed=2014-04-26&u=18181073844f318394da2a024ae62c&t=1398612910&page=2.

12 City & County of San Francisco Office of the Mayor. Mayor Lee Announces Acceleration of Housing Production & Protection of Existing Housing Stock, at: <http://www.sfmayor.org/index.aspx?recordid=515&page=846>.

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14 Kwong, Jessica. Supervisor Kim proposes ordinance seeking a balance between market rate, below market rate housing, at: <http://www.sfexaminer.com/PoliticsBlog/archives/2014/04/08/supervisor-kim-proposes-ordinance-seeking-a-balance-between-market-rate-below-market-rate-housing>.

15 Friedland, Susan. Oakland Celebrates Transformation of Two Historic Hotels Into Modern housing for the Formerly Homeless, at: <http://www.sahahomes.org/news/10-18-2013/oakland-celebrates-transformation-two-historic-hotels-modern-housing-formerly>.

DISCUSSION QUESTIONS

What innovative strategies for affordable housing stand out to you?

What other strategies have you heard about or have been applied in your community?

What other issues in the Bay Area have you heard around affordable housing?

SAN FRANCISCO MICRO UNIT PILOT PROGRAM

In November of 2012, the San Francisco Board of Supervisors approved legislation that allowed for a pilot program of micro apartments.¹⁶ Under the legislation, the micro apartments are housing units 300 square feet or smaller. These units are likely designed in a studio apartment layout by necessity. Unlike SRO housing units, micro units contain a full bathroom and kitchenette. This pilot program allows for new apartments to be as small as 220 square feet, capping the total number of these micro units at 375.¹⁷ Once 325 micro units are built, the City Planning Department will analyze their effect. Market rate rents for the micro units were estimated to be \$1,200-\$1,500.

The first project built under this program is called SmartSpace SoMa, a 23 unit building completed in May, 2013.¹⁸ Unlike many conventional micro apartment designs, SmartSpace SoMa studio apartments come with a full-sized dishwasher, sink, and 2-burner stove. To save on construction costs, the project was prefabricated off-site. This allowed the building to go up in three days, saving construction time. Additionally, the building has no parking spaces, saving further costs. SmartSpace SoMa is LEED Platinum certified and boasts solar-thermal hot water and rainwater collection, and low-flow fixtures.¹⁹

All of the 295 square foot units in SmartSpace SoMa are market-rate and leased to the California College of the Arts for student housing for one year. Students will pay \$1,600 a month for the studio apartments, and the apartments will subsequently be rented out at market rate. The median rent for market rate one-bedroom apartments in the same neighborhood is \$3,200.

SAN JOSE MICRO-UNITS PROPOSAL

In April 2014, San Jose Council members proposed legislation that would evaluate constructing micro units on underutilized public land or building “micropod” units in empty warehouses and other structures as temporary housing.²⁰ The proposed legislation would approve a study of micro units as small as 100 square feet to be built in village-like clusters on under-utilized public land. The proposal suggests that each micro unit can cost as little as \$5,000 to build. This proposal is viewed as a temporary fix for individuals experiencing homelessness while they wait for a more permanent housing solution.

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17 Lubell, Sam. Home Sweet Showbox, at: <http://archpaper.com/news/articles.asp?id=6438>.

18 Friedlander, David. The Smartest Space in San Francisco, at: <http://www.lifededited.com/the-smartest-space-in-san-francisco/>.

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20 Rules Committee Item G.3, Micro-Housing: Another Tool in The Battle Against Homelessness, at: <http://www.sanjoseca.gov/documentcenter/view/29686>.

OLYMPIA, WASHINGTON: QUIXOTE VILLAGE

In Olympia, Washington, there was a floating tent city of individuals experiencing homelessness, Camp Quixote, in existence since 2007. In 2013, Olympia officials, community leaders, and the non-profit Panza came together to develop a more permanent solution, Quixote Village.²¹ A planning committee to develop Quixote Village was established that contained residents of Camp Quixote and members of Panza. Working collaboratively, they developed the blueprint for Quixote Village, which was more affordable than other affordable housing projects in the region while simultaneously meeting the needs of Camp Quixote residents.

Quixote Village is a small community made up of 30 furnished compact micro-units that are 144 square feet (about 8 by 18 feet). Because of the small size of the units (about half the size of a typical micro apartment), Panza was able to build the units affordably. Built at prevailing market rate labor costs for the area, each home in Quixote Village was constructed for \$19,000. To save on costs, kitchen, shower, and laundry facilities were centrally located in a community center. When factoring in the costs of site preparation and the community center, the total costs of each home was \$88,000. This is far below the average cost of an affordable studio-sized apartment in the region, which is about \$200,000-\$250,000. A generous 41-year lease on the land from the City of Olympia at \$1 per year helped reduce costs.

In addition to prioritizing affordability, the project prioritized community feedback. Residents gave input into the design process, such as pushing for a horseshoe layout of individual cottages around the community center. Also, residents chose to give up interior space in exchange for outdoor porches. While Quixote Village successfully delivered affordable housing units far below the average cost, there were tradeoffs. The micro-units do not have kitchens and showers in each unit, and do not meet HUD Housing Quality Standards. Additionally, the site leased by the city is next to an industrial park and is far away from community services. Some residents cited the location as an isolating factor, which posed a challenge to their recovery plan because it made transportation and community integration difficult.

DISCUSSION QUESTIONS

Many other communities are experimenting with micro-units. Do you think these types of housing can be helpful in addressing your communities' housing needs?

What are the ethical implications of micro-units. At what size do these units become too small and stop serving a function as homes?

Some of these proposals for micro-units involve placing the housing in remote locations. Does remoteness undermine the success of the housing intervention? Is integrating micro-units into the existing framework of a community an essential component of the success of the housing? How do you balance that tradeoff?

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PORTLAND, OREGON: SNOWBERRY APARTMENTS

In Portland, Oregon, non-profit housing developer JOIN embarked on the task of building affordable housing for low-income families without public financial support.²² By eschewing the conventional model affordable housing developers use when accepting public funding and tax credits, JOIN maintains that it was able to build Snowberry Apartments more affordably than had it followed the conventional model. Housing units built using a conventional publicly funded affordable housing model typically cost \$200,000 to \$250,000 per unit.

JOIN reports that its costs were three times less than other affordable housing developments, with average unit costs of \$70,000. By not accepting public financing, JOIN was able to find cost savings in several ways. First, Portland requires developers that accept public funding to commit to rules that require them to pay all workers the equivalent of union wages, build housing units to green standards, and to follow guidelines on hiring minority workers. Secondly, JOIN calculated that accepting public funding would have required it to spend \$100,000 on legal costs to meet several federal regulations. These regulations include setting up a special partnership and a limited entity corporation.

Finally, JOIN was able to find additional savings through a unique financing method. A partnering non-profit, PHC Northwest loaned \$1.9 million up front to JOIN. JOIN was required to hit its \$70,000-per-unit target at a specified quality or otherwise pay back the \$1.9 million. This arrangement allowed JOIN to realize cost savings by moving quickly, finding deals on materials, and have better bargaining power. The conventional financing method for affordable housing developers is a 10 percent fee for the total project cost. JOIN did accept one public subsidy for a waiver of \$350,000 in system development fees by the city in exchange for a commitment to maintain the apartments' low rents for 60 years.

DISCUSSION QUESTIONS

What ethical and practical implications arise from eschewing public funding and choosing not to use union labor or green standards in building affordable housing?

What considerations are there when balancing minimizing cost, versus the need to maintain a safe and ethical workplace and ensure the long-term safety of housing?

What strategies and possible solutions are applicable from this example?

ALTERNATIVE CONSTRUCTION MODELS

In addition to the previously mentioned examples, other ideas are being examined and implemented in different communities. In Los Angeles, the Skid Row Housing Trust (The Trust) used pre-fabricated, modular construction methods to build a 102 unit building for formerly homeless people.²³ By using pre-fabricated method, The Trust was able to build over an existing structure and minimize construction waste.²⁴ The prefabrication cost was \$55,000 per unit from the factory and total hard costs of the project were 17% lower than other comparable housing developments that The Trust build using conventional construction

22 Korn, Peter. High cost of 'affordable', at: <http://www.pamplinmedia.com/pt/9-news/209817-66668-high-cost-of-affordable>.

23 Common Ground. Cost-Efficient Housing Models, at: <http://commongroundwa.org/organization/NHMI-cost-efficient-models>.

24 Skid Row Housing Trust. Star Apartments, at: <http://skidrow.org/wp-content/uploads/Star-Leed-for-Homes.pdf>.

methods.

An alternative model used by Tempohousing, a modular design firm in the Netherlands is based on the reuse of materials rather than construction. Realizing that many developed countries that run trade deficits also have a surplus of unused shipping containers, Tempohousing converted shipping containers into modular housing units.²⁵ In its Keetwonen, Amsterdam project, Tempohousing built a 1,000 unit project for student housing. Each unit comes with its own bathroom, kitchen, and balcony. The total cost per unit at Keetwonen came to \$32,000. Tempohousing has successfully applied this technique in developing affordable housing for a variety of communities. Similar reuse projects can be found using railroad cars and other materials.

CONCLUSION

In response to increasing housing costs, the scarcity of traditional affordable housing and the large need, different communities are working through a variety of new ideas. By utilizing new construction methods, reusing materials, reducing unit-size, and finding alternative financing, communities hope to decrease the overall cost in housing and provide housing to those in need.

	MARCH 2011	MARCH 2012	MARCH 2013	MARCH 2014
SAN FRANCISCO	\$2,621	\$2,970	\$3,347	\$3,602
OAKLAND	\$1,750	\$1,884	\$1,854	\$2,054
SAN JOSE	\$2,304	\$2,431	\$2,537	\$2,664

25 Common Ground. Cost-Efficient Housing Models, at: <http://commongroundwa.org/organization/NHMI-cost-efficient-models>.

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