

Memorandum

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To: Kearstin Dischinger and Sarah Dennis, San Francisco Planning Department

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Subject: Increased Sensitivity Analysis – Market and Octavia Neighborhood Plan Area

Seifel Consulting Inc. (Seifel) is pleased to deliver this memorandum summarizing its analysis of increased fees on sites upzoned as part of the Market and Octavia Neighborhood Plan.

Background

In Spring of 2007, the San Francisco Planning Department requested Seifel to analyze the feasibility of increased contributions to affordable housing within areas being “upzoned” as part of the Market Octavia Neighborhood Plan.¹ Upzoning will mean increases in square footage and number of units allowed, yielding higher value to property owners and developers. However, this value increase is offset by higher development costs and City fees, as taller buildings have more expensive construction-related costs, as well as increased fees to achieve greater floor to area ratios and amounts of development, as illustrated in Graph 1.

The attached map, “Changes in Heights from Existing Controls,” highlights portions of the Plan area being upzoned in red. Upzoning generally occurs within the Neighborhood Commercial Transit (NCT) and Van Ness Market Residential Special Use District (VNMR-SUD). Initial analysis determined that the major new development potential created by the upzoning is on VNMR-SUD sites. Planning Department staff identified four VNMR-SUD sites likely to see new development within the near future, and Seifel analyzed those four sites in depth.

Methodology

Seifel developed land residual models to compare the value of land today (based on building a residential development under existing height and bulk restrictions) to the value under proposed zoning and regulations.² Seifel utilized revenue and cost assumptions from the 2006 Inclusionary Housing study, modified in conjunction with Planning Department staff to fit the Market and Octavia neighborhood. Seifel initially ran the models on sites within the NCT and VNMR-SUD, and then focused on the four VNMR-SUD sites discussed above.

¹ Upzoning is defined as increased height or floor to area ratio (FAR) limits and/or the removal of density constraints.

² This methodology is similar to that used in the Rincon Hill and Inclusionary Housing studies.

Findings

Policy decisions regarding the Market and Octavia Neighborhood have established positive urban design and increased funding for affordable housing and other community improvements on the four VNMR-SUD sites. The slender tower designed allowed within the Plan area fosters an attractive urban form, preserves light and air, and minimizes shadows.³ Funding for community improvements comes from the Market–Octavia Community Improvement Fee and VNMR-SUD Development Credits.⁴ Increased residential development also means more affordable housing units and funding under San Francisco’s recently updated Inclusionary Housing policy. These policy decisions have positive ramifications for the Market and Octavia Neighborhood and City, but do impact the financial feasibility of future development.

Increased value from proposed zoning changes is largely absorbed by public benefits conferred through additional fees, policies, and regulations aimed at enhancing and protecting the public realm. Graph 2 displays this phenomenon graphically for one of the four sites. On this site, Site 1A, development costs estimated at over \$450 million result in a lower residual land value after the proposed zoning than before it. Residual land value decreases on three of the four sites, as shown in Table 1 under “Base Case.”

Moreover, normal market fluctuations will greatly impact the feasibility of projects and supportable fees. Table 1 provides residual land values under “Best Case” and “Worst Case” scenarios (2 percent lower construction costs and 2 percent higher sales values and, conversely, 2 percent higher construction costs and 2 percent lower sales values).⁵ This range of results demonstrates that project feasibility and supportable fees are highly contingent upon market conditions. Thus, under favorable market conditions, higher fees could be supported, while under less favorable conditions, developers may choose not to build on these sites.

Conclusion

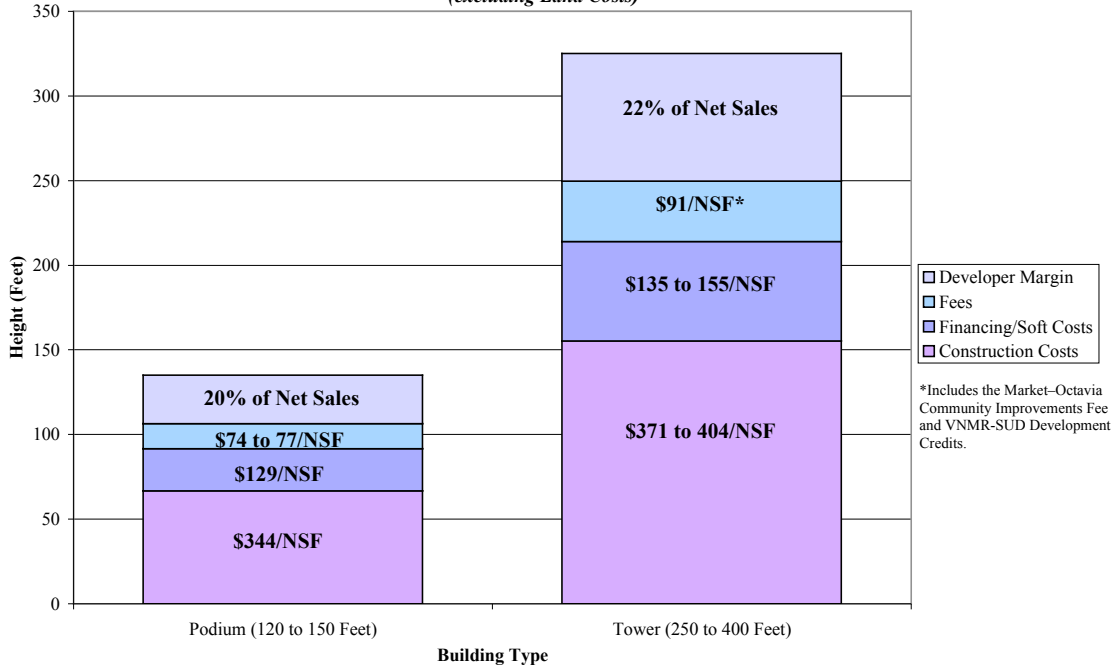
A major objective of the Market and Octavia Neighborhoods Plan is to encourage housing and density, particularly in this transit rich area. The local improvements envisioned in the Plan are dependent on revenue from the Improvement Fee and Development Credits. Neither policy objectives nor funding needs can be met without new development. Further increases in fees or regulations are thus not recommended, as they will likely dissuade new development.

³ The floorplate of towers within the VNMR-SUD are limited to 10,000 square feet for 400 foot towers and 8,500 square feet for 250 foot towers.

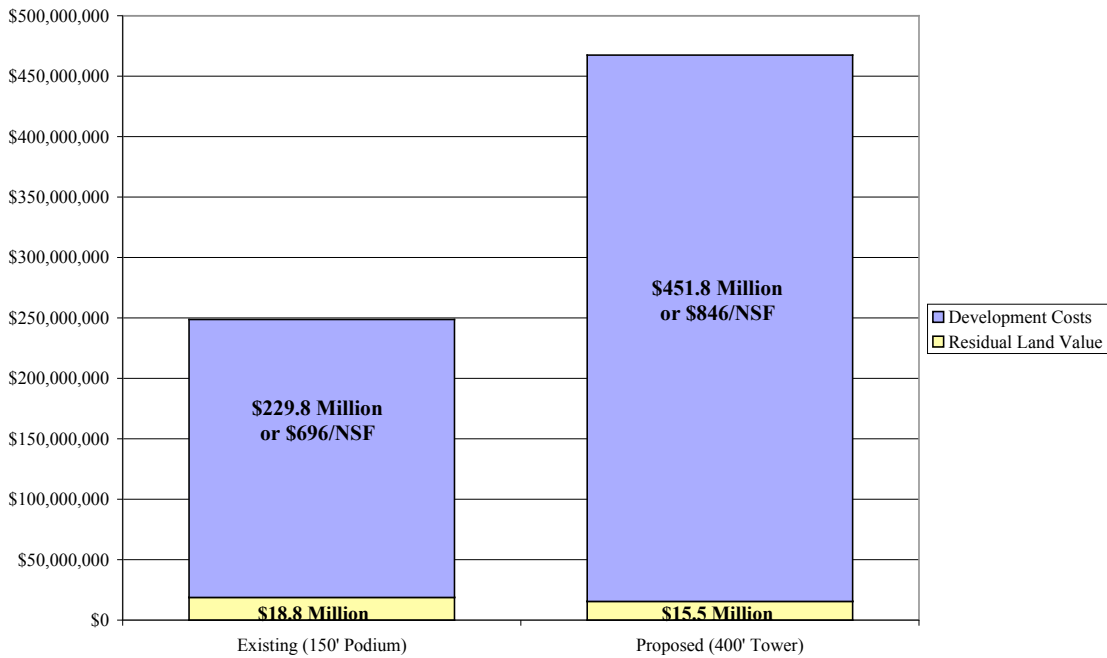
⁴ The Market–Octavia Community Improvement Fee is \$10 per net square foot of residential development, \$4 per net square foot of commercial development, and the VNMR-SUD Development Credits cost \$15/gross square foot of development above 9:1 FAR. As shown in Table 1 under “Funds for Market-Octavia Community Benefits,” the four sites generate an estimated \$23.7 million in revenue, 54 percent by the Improvement Fee and 46 percent by the Development Credits. This is funding for local public benefits.

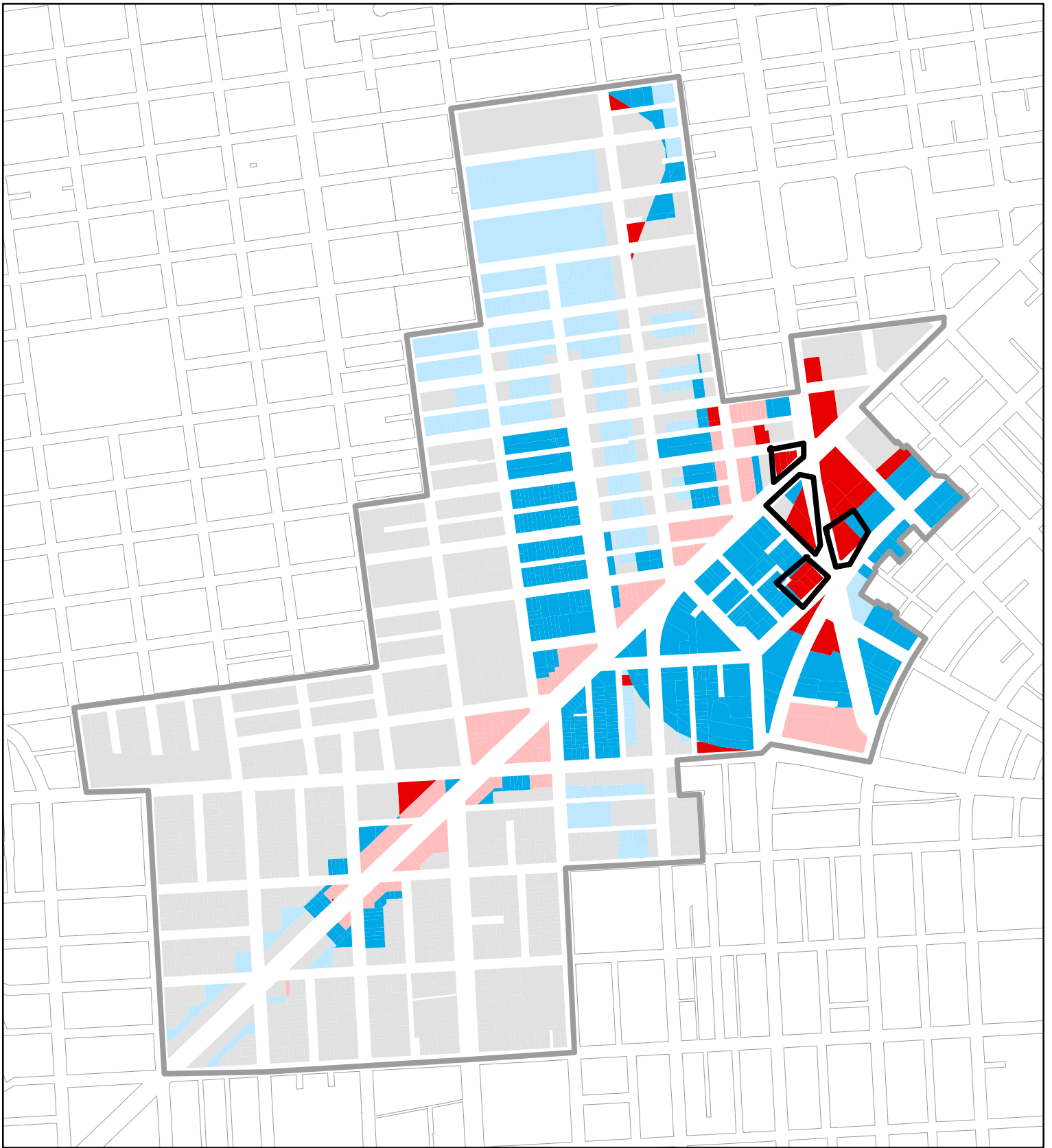
⁵ In reality, the impact of such fluctuations in costs and sales revenue would not be contained in land values alone.

Graph 1
Components of Development Cost by Building Type
(excluding Land Costs)



Graph 2
Development Costs and Residual Land Value
51,500 SF Lot (Site 1A)





Change in Heights, Feet

Height Difference

- Decrease Larger than 10 Feet
- Decrease Less than or Equal to 10 Feet
- No Change
- Increase Less than or equal to 10 Feet
- Increase Larger than 10 Feet

Changes in Heights from Existing Controls



Table 1
Summary of VNMR/SUD Site Analysis*

Sites	1A	1B	2A	2B	
Lot Size	51,500 sf	18,500 sf	25,000 sf	11,500 sf	
Height Change	150 to 400 ft	150 to 400 ft	120 to 250 ft	120 to 250 ft	
Unit Change	330 to 534	118 to 334	138 to 241	70 to 161	
Residual Land Value					
Existing Zoning	\$18.8 M	\$6.7 M	\$8.2 M	\$4.0 M	
Proposed Zoning					
Base Case	↓ \$15.5 M	↓ \$4.9 M	↓ \$7.4 M	↑ \$4.7 M	
Best Case	↑ \$27.0 M	↑ \$12.2 M	↑ \$12.2 M	↑ \$7.9 M	
Worst Case	↓ \$4.0 M	↓ -\$2.3 M	↓ \$2.6 M	↓ \$1.5 M	
Funds for Market-Octavia Community Benefits					Total
VNMR-SUD Development Credits	\$3.8 M	\$4.0 M	\$1.5 M	\$1.6 M	\$11.0 M
Community Improvements Fee	\$5.3 M	\$3.3 M	\$2.4 M	\$1.6 M	\$12.7 M
Total	\$9.2 M	\$7.4 M	\$3.9 M	\$3.2 M	\$23.7 M

Source: San Francisco Planning Department, Seifel Consulting Inc.

*See Appendix I: Market and Octavia VNMR/SUD Site and Additional Affordable Housing Analysis for details.

Table 1A, Market-Van Ness 400 Foot Tower, 51500sf Lot			
	Current Zoning C-3-G	Proposed Zoning C-3-G, VNMDRSUD	Net Change
Site Area and Zoning			
Lot Size	51,500 Square Feet	51,500 Square Feet	
Maximum Residential Lot Coverage Area *a	38,625 Square Feet	38,625 Square Feet	
Maximum Residential Density	125 Lot SF per Unit	N/A	
Maximum FAR	9	N/A	
Maximum Height	150 Feet	400 Feet	
Podium Height	N/A	120 Feet	
Maximum Tower Floor Area	N/A	10,000 Square Feet	
Development Program			
	Mid Rise Podium 2	High Rise Tower 2	
Maximum Total Stories	15 Floors	40 Floors	
Estimated Actual Residential Floors *b	11 Floors	38 Floors	
Maximum Units *c,d,e,f	330 Units *1	534 Units	
Actual FAR *g	9.0	14.0	
Average Parking Ratio	0.625 Space per Unit	0.625 Space per Unit	
Parking Spaces	207 Spaces	334 Spaces	
Parking Stories *h	1.4 Floors	2.3 Floors	
Revenue			
Market Rate Sales Value *i	\$800 Per NSF	\$926 Per NSF	
	\$800,000 Per Unit	\$926,250 Per Unit	
Average MR Sales Value <i>Adjusted for Parking Ratio</i> *j	\$781,364 Per Unit	\$907,523 Per Unit	
	\$781 Per NSF	\$908 Per NSF	
Sales Expense	3.5%	3.5%	
Sales Net of Sales Expense	\$753,364 Per Unit	\$875,105 Per Unit	\$121,741 Per Unit
	\$753 Per NSF	\$875 Per NSF	\$122 Per NSF
Building Costs			
Hard Construction (adjusted for parking ratio) *k	\$344 Per NSF	\$404 Per NSF	
Governmental Fees	\$77 Per NSF	\$91 Per NSF	
<i>Permits and Processing Charges</i>	\$6,000 Per Unit	\$7,000 Per Unit	
<i>Water and Sewer Impact Fees</i>	\$3,893 Per Unit	\$3,893 Per Unit	
<i>School Impact Fee</i>	\$2.24 Per NSF	\$2.24 Per NSF	
<i>Inclusionary Housing In-Lieu Fee *l</i>	\$54,780 Per Unit	\$54,780 Per Unit	
<i>Market-Octavia Community Improvements *m</i>	\$0 Per NSF	\$10 Per NSF	
<i>VNMR-SUD Development Credits *n</i>	\$0 Per Unit	\$7,177 Per Unit	
Historical TDR *o	\$9,832 Per Unit	\$6,076 Per Unit	
Other Soft Costs	\$90 Per NSF	\$100 Per NSF	
Construction Financing	\$39 Per NSF	\$55 Per NSF	
Total Building Costs	\$549,563 Per Unit	\$650,020 Per Unit	\$100,457 Per Unit
	\$550 Per NSF	\$650 Per NSF	\$100 Per NSF
Residual Land Value			
Return on Net Sales	19.5%	22.4%	
Developer Margin	\$146,906 Per Unit	\$196,023 Per Unit	
<i>Implied Return on Costs *p</i>	<i>24.2%</i>	<i>28.9%</i>	
Land Value			
<i>Per Unit</i>	\$56,894	\$29,061	-\$27,833 Per Unit
<i>Representative Site Land Value</i>	\$18,775,128	\$15,518,553	-\$3,256,575
<i>Site value increase as a percent of current zoning base</i>			-17.3%

Table 1B, Market-Van Ness 400 Foot Tower, 18500sf Lot			
	Current Zoning C-3-G	Proposed Zoning C-3-G, VNMDRSUD	Net Change
Site Area and Zoning			
Lot Size	18,500 Square Feet	18,500 Square Feet	
Maximum Residential Lot Coverage Area *a	13,875 Square Feet	13,875 Square Feet	
Maximum Residential Density	125 Lot SF per Unit	N/A	
Maximum FAR	9	N/A	
Maximum Height	150 Feet	400 Feet	
Podium Height	N/A	120 Feet	
Maximum Tower Floor Area	N/A	10,000 Square Feet	
Development Program			
	Mid Rise Podium 2	High Rise Tower 2	
Maximum Total Stories	15 Floors	40 Floors	
Estimated Actual Residential Floors *b	11 Floors	38 Floors	
Maximum Units *c,d,e,f	118 Units*1	334 Units	
Actual FAR *g	9.0	23.6	
Average Parking Ratio	0.625 Space per Unit	0.625 Space per Unit	
Parking Spaces	74 Spaces	209 Spaces	
Parking Stories *h	1.4 Floors	4.0 Floors	
Revenue			
Market Rate Sales Value *i	\$800 Per NSF	\$926 Per NSF	
	\$800,000 Per Unit	\$926,250 Per Unit	
Average MR Sales Value <i>Adjusted for Parking Ratio</i> *j	\$781,356 Per Unit	\$907,537 Per Unit	
	\$781 Per NSF	\$908 Per NSF	
Sales Expense	3.5%	3.5%	
Sales Net of Sales Expense	\$753,356 Per Unit	\$875,119 Per Unit	\$121,763 Per Unit
	\$753 Per NSF	\$875 Per NSF	\$122 Per NSF
Building Costs			
Hard Construction (adjusted for parking ratio) *k	\$344 Per NSF	\$416 Per NSF	
Governmental Fees	\$77 Per NSF	\$94 Per NSF	
<i>Permits and Processing Charges</i>	\$6,000 Per Unit	\$7,000 Per Unit	
<i>Water and Sewer Impact Fees</i>	\$3,893 Per Unit	\$3,893 Per Unit	
<i>School Impact Fee</i>	\$2.24 Per NSF	\$2.24 Per NSF	
<i>Inclusionary Housing In-Lieu Fee *l</i>	\$54,780 Per Unit	\$54,780 Per Unit	
<i>Market-Octavia Community Improvements *m</i>	\$0 Per NSF	\$10 Per NSF	
<i>VNMR-SUD Development Credits *n</i>	\$0 Per Unit	\$12,103 Per Unit	
Historical TDR *o	\$9,788 Per Unit	\$3,490 Per Unit	
Other Soft Costs	\$90 Per NSF	\$100 Per NSF	
Construction Financing	\$39 Per NSF	\$55 Per NSF	
Total Building Costs	\$549,515 Per Unit	\$664,279 Per Unit	\$114,764 Per Unit
	\$550 Per NSF	\$664 Per NSF	\$115 Per NSF
Residual Land Value			
Return on Net Sales	19.5%	22.4%	
Developer Margin	\$146,904 Per Unit	\$196,027 Per Unit	
<i>Implied Return on Costs *p</i>	<i>24.2%</i>	<i>28.9%</i>	
Land Value			
<i>Per Unit</i>	\$56,936	\$14,813	-\$42,123 Per Unit
<i>Representative Site Land Value</i>	\$6,718,499	\$4,947,683	-\$1,770,816
<i>Site value increase as a percent of current zoning base</i>			-26.4%

* All Revenue and cost data based on KMA prototypes. See footnotes for information on assumptions and adjustments.

Table 2A, Market-Van Ness 250 Foot Tower, 25000 sf Lot			
	Current Zoning C-3-G	Proposed Zoning C-3-G, VNMDRSUD	Net Change
Site Area and Zoning			
Lot Size	25,000 Square Feet	25,000 Square Feet	
Maximum Residential Lot Coverage Area *a	18,750 Square Feet	18,750 Square Feet	
Maximum Residential Density	125 Lot SF per Unit	N/A	
Maximum FARa	9	N/A	
Maximum Height	120 Feet	250 Feet	
Podium Height	80 Feet	120 Feet	
Maximum Tower Floor Area	15,000 Square Feet*2	8,500 Square Feet	
Development Program			
	Mid Rise Podium 2	High Rise Tower 1	
Maximum Total Stories	12 Floors	25 Floors	
Estimated Actual Residential Floors *b	10 Floors	23 Floors	
Maximum Units *c,d,e,f	138 Units	241 Units	
Actual FAR *g	7.9	13.1	
Average Parking Ratio	0.625 Space per Unit	0.625 Space per Unit	
Parking Spaces	87 Spaces	151 Spaces	
Parking Stories *h	1.2 Floors	2.1 Floors	
Revenue			
Market Rate Sales Value *I	\$800 Per NSF	\$855 Per NSF	
	\$800,000 Per Unit	\$855,000 Per Unit	
Average MR Sales Value <i>Adjusted for Parking Ratio</i> *j	\$781,522 Per Unit	\$836,328 Per Unit	
	\$782 Per NSF	\$836 Per NSF	
Sales Expense	3.5%	3.5%	
Sales Net of Sales Expense	\$753,522 Per Unit	\$806,403 Per Unit	\$52,881 Per Unit
	\$754 Per NSF	\$806 Per NSF	\$53 Per NSF
Building Costs			
Hard Construction (adjusted for parking ratio) *k	\$344 Per NSF	\$371 Per NSF	
Governmental Fees	\$74 Per NSF	\$91 Per NSF	
Permits and Processing Charges	\$6,000 Per Unit	\$7,000 Per Unit	
Water and Sewer Impact Fees	\$3,893 Per Unit	\$3,893 Per Unit	
School Impact Fee	\$2.24 Per NSF	\$2.24 Per NSF	
Inclusionary Housing In-Lieu Fee *l	\$54,780 Per Unit	\$54,780 Per Unit	
Market-Octavia Community Improvements *m	\$0 Per NSF	\$10 Per NSF	
VNMR-SUD Development Credits *n	\$0 Per Unit	\$6,302 Per Unit	
Historical TDR *o	\$7,228 Per Unit	\$6,535 Per Unit	
Other Soft Costs	\$90 Per NSF	\$90 Per NSF	
Construction Financing	\$39 Per NSF	\$45 Per NSF	
Total Building Costs	\$547,055 Per Unit	\$596,547 Per Unit	\$49,493 Per Unit
	\$547 Per NSF	\$597 Per NSF	\$49 Per NSF
Residual Land Value			
Return on Net Sales	19.5%	22.2%	
Developer Margin	\$146,937 Per Unit	\$179,021 Per Unit	
<i>Implied Return on Costs</i> *p	<i>24.2%</i>	<i>28.5%</i>	
Land Value			
Per Unit	\$59,530	\$30,834	-\$28,696 Per Unit
Representative Site Land Value	\$8,215,181	\$7,431,033	-\$784,148
<i>Site value increase as a percent of current zoning base</i>			-9.5%

Table 2B, Market-Van Ness 250 Foot Tower, 11500 sf Lot			
	Current Zoning C-3-G	Proposed Zoning C-3-G, VNMDRSUD	Net Change
Site Area and Zoning			
Lot Size	11,500 Square Feet	11,500 Square Feet	
Maximum Residential Lot Coverage Area *a	8,625 Square Feet	8,625 Square Feet	
Maximum Residential Density	125 Lot SF per Unit	N/A	
Maximum FARa	9	N/A	
Maximum Height	120 Feet	250 Feet	
Podium Height	80 Feet	120 Feet	
Maximum Tower Floor Area	8,625 Square Feet *3	8,500 Square Feet	
Development Program			
	Mid Rise Podium 2	High Rise Tower 1	
Maximum Total Stories	12 Floors	25 Floors	
Estimated Actual Residential Floors *b	10 Floors	23 Floors	
Maximum Units *c,d,e,f	70 Units	161 Units	
Actual FAR *g	8.6	18.5	
Average Parking Ratio	0.625 Space per Unit	0.625 Space per Unit	
Parking Spaces	44 Spaces	101 Spaces	
Parking Stories *h	1.3 Floors	3.1 Floors	
Revenue			
Market Rate Sales Value *I	\$800 Per NSF	\$855 Per NSF	
	\$800,000 Per Unit	\$855,000 Per Unit	
Average MR Sales Value <i>Adjusted for Parking Ratio</i> *j	\$781,429 Per Unit	\$836,366 Per Unit	
	\$781 Per NSF	\$836 Per NSF	
Sales Expense	3.5%	3.5%	
Sales Net of Sales Expense	\$753,429 Per Unit	\$806,441 Per Unit	\$53,013 Per Unit
	\$753 Per NSF	\$806 Per NSF	\$53 Per NSF
Building Costs			
Hard Construction (adjusted for parking ratio) *k	\$344 Per NSF	\$371 Per NSF	
Governmental Fees	\$76 Per NSF	\$93 Per NSF	
Permits and Processing Charges	\$6,000 Per Unit	\$7,000 Per Unit	
Water and Sewer Impact Fees	\$3,893 Per Unit	\$3,893 Per Unit	
School Impact Fee	\$2.24 Per NSF	\$2.24 Per NSF	
Inclusionary Housing In-Lieu Fee *l	\$54,780 Per Unit	\$54,780 Per Unit	
Market-Octavia Community Improvements *m	\$0 Per NSF	\$10 Per NSF	
VNMR-SUD Development Credits *n	\$0 Per Unit	\$10,179 Per Unit	
Historical TDR *o	\$9,000 Per Unit	\$4,500 Per Unit	
Other Soft Costs	\$90 Per NSF	\$90 Per NSF	
Construction Financing	\$39 Per NSF	\$45 Per NSF	
Total Building Costs	\$548,771 Per Unit	\$598,412 Per Unit	\$49,641 Per Unit
	\$549 Per NSF	\$598 Per NSF	\$50 Per NSF
Residual Land Value			
Return on Net Sales	19.5%	22.2%	
Developer Margin	\$146,919 Per Unit	\$179,030 Per Unit	
<i>Implied Return on Costs</i> *p	<i>24.2%</i>	<i>28.5%</i>	
Land Value			
Per Unit	\$57,739	\$29,000	-\$28,740 Per Unit
Representative Site Land Value	\$4,041,762	\$4,668,937	\$627,175
<i>Site value increase as a percent of current zoning base</i>			15.5%

* All Revenue and cost data based on KMA prototypes. See footnotes for information on assumptions and adjustments.

Appendix I: Market and Octavia VNMR/SUD Site and Additional Affordable Housing Analysis Assumptions

Site Area and Zoning

- a. Site Coverage Residential – 75%

Development Program

- b. Estimated Actual Residential Floors – assumes parking and commercial floors
- c. Average Unit Size – 1000 nsf, 1250 gsf
- d. Unit mix – 50% 1 bedroom and 50% 2-bedroom
- e. Building Efficiency – 80%
- f. Unit per floor estimates are based on gross unit square footage and estimated floor area; estimates round up when unit calculations are within .2 of the next full unit.
- g. FAR (floor area ratio) does not include parking. This analysis assumes that one non-residential floor is parking and thus does not count toward total.
- h. Parking space size – 350 sf

Revenue

- g. Market Rate Sales Value - reduced 5% from KMA data due to reduced value of the project site.
- h. Market Rate Sales Value – reduced to account for reduced parking ratio. Parking space valued at \$50,000.

Building Costs

- i. Hard construction costs from KMA, adjusted to remove the cost of constructing parking (estimated at \$30,000 per space above grade, \$35,000 below).
- j. In-Lieu fee calculated in proportion to unit mix and according to 20% off-site requirement.
- k. Market-Octavia Community Improvements Fee to be charged under proposed zoning only. Assume full fee of \$10 because potentially offsetting fees are not included in permits and processing charges.
- l. Under proposed zoning, VNMR-SUD Development Credits will allow development above 9:1 FAR with the purchase of credits (\$15 per Gross SF over 9:1 FAR).
- m. The SF Planning Department estimates the market value of Historical TDR credits at \$21 per Gross SF.

Residual Land Value

- n. Return on costs shown for illustrative purposes and falls within the target range developed for the KMA Inclusionary Housing analysis. Developer margin calculated by fixing return on net sales to the figure calculated in the KMA analysis (see Summary Report, Table 2).

Site Specific

1A/1B

1. Unit count under current zoning constrained by FAR limitation, rather than heights or density controls.

2A

2. Current bulk controls restrict building floorplate above 80 feet. Actual controls vary and are flexible in practice. The SF Planning Department estimates that 15,000 square feet is a reasonable floorplate, given this lot size. The upper portion of this building is considered a "stepped podium" rather than a true tower.

2B

3. Current bulk controls restrict building floorplate above 80 feet. Actual controls vary and are flexible in practice. And for this lot size the upper floorplate is assumed to stay consistent with the lower portion of the building.