Hi Jeff. Thanks for sharing the discussion that the OCII Commission is having about 181 Fremont offering onsite inclusionary units. As you know, while many developers opt for the in lieu fee, MOHCD policy historically has allowed developers citywide to provide inclusionary BMR obligation off-site. We have found that the off-site units avoid affordability obstacles that occur when they are included a luxury building. In today’s market, accepting the 181 Fremont in-lieu fee isn’t unusual or an isolated circumstance.

MOHCD supports accepting $13.85 million in lieu of 11 units at 181 Fremont as is consistent with MOHCD policy and practice:

- HOA fees at $2,000 per month (wow!) would be a disproportionately large portion of a homebuyer’s monthly housing cost at approximately 84% of total housing cost. This severely limits the size of a mortgage the homebuyer could carry, and limits the mortgage interest tax deduction, which is a significant benefit of homeownership.

- Unit sales prices would be well below $100,000 artificially low/distorted due to extremely high HOA dues. This would result in a small first mortgage for the initial BMR homebuyer. A very low first mortgage on the BMR unit, severely limits the homebuyer’s future ability to recoup at sale the money paid down on a mortgage over time – instead the majority will have been paid toward HOA dues. In a typical case, an owner will purchase a unit for $300,000 and pay a monthly $400 HOA fee. If the unit resells for, say, $320,000 the owner recoups the money paid down on the mortgage minus interest. If an owner buys a unit for $60,000 and sells the unit for $65,000 in 5 years, the owner has no chance of recouping the majority of the mortgages that have been made over time, therefore losing one of the main benefits of ownership. A BMR buyer in this situation resembles a renter not an owner.

- BMR units at 181 Fremont would start in MOHCD’s portfolio, not OCII-Limited Equity Program. MOHCD calculates the initial sales price with the HOA dues in. However, upon resale the HOA dues are not calculated in. This way, the seller can sell the unit based on increases in AMI without taking into consideration the HOA dues. Great for the seller however, the new buyer now has to pay the affordable sales price plus the monthly HOA dues. It makes it harder for the new buyer to be able to afford the AMI priced home without down payment assistance. Thanks to the Housing Trust Fund and a state grant, we have been able to provide downpayment assistance so that our new buyers can still afford our BMR’s. While we acknowledge that this is a band-aid approach because we cannot indefinitely rely on DALP to cover rising HOA dues, we have been able to ensure that new buyer of resale units are able to afford their units. Having said that, we’ve never had HOA dues in excess of $1000. I’m not sure that even our DALP could bridge an affordability gap that large.

- With HOAs as a disproportionately large amount of their housing costs, a BMR homeowner is at increased risk because HOAs have historically increased more than inflation. Wealthier market-rate homebuyers, assuming they carry a mortgage, are impacted proportionally less by increasing HOAs and may have less incentive to control higher HOAs. For example, if $500 HOA monthly dues increase 10% = $50, but if $2,000 HOA monthly dues increase 10% = $200, making it more difficult for the BMR homeowner to absorb increases.

- MOHCD’s stewardship obligation is both to the buyer and to the unit. An artificially low first mortgage will surely attract predatory lenders who see an opportunity to offer high interest second mortgages and lines of credit to our unassuming first time homebuyers leaving them vulnerable to foreclosure.
Instead of adding 11 BMR units at 181 Fremont, the $13.85 million in-lieu fee would leverage other funds and could create approximately 55 affordable units elsewhere in Transbay. A net increase of 44 affordable units. Great deal!!

Attached is a spreadsheet comparing “baseline” BMR pricing to pricing with the high HOAs at 181 Fremont.

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MOHCD is experiencing a high volume of applications for all DALP programs. Please allow 20 days review and process time of all loan packages.