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Despite a Rare Pedigree, Plan for Affordable Housing Collapses

By ZUSHA ELINSON

The deal was brokered recently in private by an unusual team of rivals, including one of San Francisco's most prominent developers and a vociferous housing activist. The result, by all accounts, was unprecedented: an estimated \$50 million for affordable housing in the city each year.

One developer who participated in the negotiations, which took place over the last six weeks in a City Hall annex, described the agreement as a "once-every-50-years alignment of the planets."

Last week, however, the ambitious deal — which would have provided financing for affordable-housing projects, and would also have helped developers by subsidizing an affordable-housing requirement — came apart after running into opposition from an unlikely source: Mayor [Gavin Newsom](#), the Democratic nominee for lieutenant governor.

The scuttled initiative, which has not been publicized, left a trail of bitterness and recrimination, much of it directed at Mr. Newsom, whose own aides had helped broker the deal. Three participants who were involved in the discussions said they understood that Mr. Newsom was reluctant to support what amounted to a new tax as he makes a run for statewide office.

"We came up with a plan that addressed a critical need," said Calvin Welch, the housing advocate who helped broker the deal. "But the only thing that's critical to Gavin Newsom is becoming lieutenant governor."

Mr. Newsom, in an interview earlier this week, denied that politics played a role in his decision. The mayor said that he had tentatively supported the initiative, which would have been put before voters in November, as a "serious shift in the way we deal with affordable housing" but that proponents had failed to generate the kind of broad support necessary to gain approval.

"I'm just a convenient excuse right now," Mr. Newsom said.

The crumbling of the innovative housing initiative underscores a tumultuous relationship between

Mr. Newsom and the Board of Supervisors over several new tax measures its members have proposed — as Mr. Newsom campaigns for a statewide office, according to people who participated in meetings about the deal.

The talks, which were spurred by the recession's crippling effect on new housing, began in May, several months after Mr. Newsom proposed a stimulus package to get development projects restarted.

Mr. Welch, the housing advocate known for his caustic criticism of gentrification, came to the negotiations seeking a fixed stream of financing for affordable housing, which has largely dried up during the recession.

One of city's largest nonprofit developers, the Tenderloin Neighborhood Development Corporation, has suspended four big projects for low-income families because of a lack of financing.

Oz Erickson, the chief executive of the Emerald Fund, one of the largest developers in San Francisco, came to the negotiations seeking a break from the city's requirement that developers designate at least 15 percent of all new units to below-market-rate housing.

Mr. Erickson argued that the cost of "inclusionary zoning" — a policy he and Mr. Welch had hammered out in the 1990s, the last time they worked together on legislation — was too burdensome for builders in a recession.

"Right now, it's terribly difficult to get any financing, and the affordable-housing component is a significant charge," said Mr. Erickson, whose condominium projects include One Rincon Hill and the Bridgeview Tower.

During the meetings, according to several participants, Mr. Welch thundered about the urgent need for affordable housing, according to participants. As he held forth, Mr. Erickson continually worked his fingers over his ubiquitous HP 12c calculator, crunching the numbers.

Gabriel Metcalf, executive director of the San Francisco Urban Planning and Research Association, a moderate public policy institute, said negotiators reached "an agreement that would've solved both problems."

The complicated deal would have substantially raised the transfer tax — the tax paid when property is bought or sold — for any building over \$875,000. For example, the transfer tax on a home sold for \$1.1 million is currently \$8,250. With the proposed increase, it would have been \$12,650.

That money would have gone into a permanent fund dedicated to affordable housing: Half would have been used for affordable-housing projects, and the other half would have gone to ease the burden on developers by subsidizing the affordable-housing requirement.

The mayor said it was a political rarity for these two rival factions to work together.

“These are strange bedfellows, and they don’t always agree,” Mr. Newsom said. “What was intriguing was that there was a willingness to work this through.”

The negotiations took place in the Mayor’s Office of Housing, two blocks from City Hall, and were mediated by Doug Shoemaker, the office’s director.

Mr. Newsom acknowledged that some of his top aides supported the deal. In the end, he said, he did not believe the measure had enough broad support to succeed. Notably, efforts to placate groups representing landlords and Realtors failed.

“Folks were so consumed with getting something on the ballot for November,” Mr. Newsom said. “But in order to do this we have to build a broad coalition, and, with respect to my friends in the room, they’re not the whole city.”

But Mr. Welch and others familiar with the negotiations said the politics of the moment also weighed heavily. Since announcing earlier this year his entry into the race for lieutenant governor, Mr. Newsom has continued to oppose raising taxes, most recently a series of measures put forward by progressive members of the Board of Supervisors.

Mr. Newsom’s electoral success in November — and perhaps beyond — will depend in part on his ability to broaden his appeal to voters outside San Francisco.

“The mayor’s office sponsored the whole thing, and ultimately the mayor could have stepped up to make it happen,” said Lou Vasquez, a developer with Build, Incorporated, who was in the talks.

“The mechanics seemed to be working out,” Mr. Vasquez said, “but the politics seemed to get in the way.”

Last week, with Mr. Newsom still withholding his support, the deadline to place the affordable-housing measure on the November ballot passed quietly — with the public unaware of the potential deal.

There is now one other proposal from the Board of Supervisors intended to raise money for affordable housing, but it does not have the support of the mayor, the developers or their friends. Sponsored by Supervisor Chris Daly, who has been trying for years to get a permanent source of affordable-housing money, the measure is headed for the ballot in November.

Mr. Newsom said he hoped this idea for a permanent source of financing came back — whether or not he was in office.

“We were up against a deadline, and it wasn’t ready,” Mr. Newsom said. “This idea is not dead.”

His hopes were echoed by Mr. Metcalf, Mr. Welch and others who had tried to make the deal. But they said it had been a rare moment when everything seemed aligned: a recession hurting housing activists and developers enough to bring them both to the bargaining table.

“I personally will work to try to put this deal together again,” Mr. Metcalf said, “but you never know when your window of opportunity for social change will open, and you never know when it will close.”

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