COUNTY OF SAN DIEGO

BOARD OF SUPERVISORS

1600 PACIFIC HIGHWAY, ROOM 335, SAN DIEGO, CALIFORNIA 92101-2470

AGENDA ITEM

DATE: **August 31, 2021**

TO: Board of Supervisors

SUBJECT

TRANSFORMATIVE HOUSING SOLUTIONS THAT ADVANCE EQUITY, SUSTAINABILITY, AND AFFORDABILITY FOR ALL (DISTRICTS: ALL)

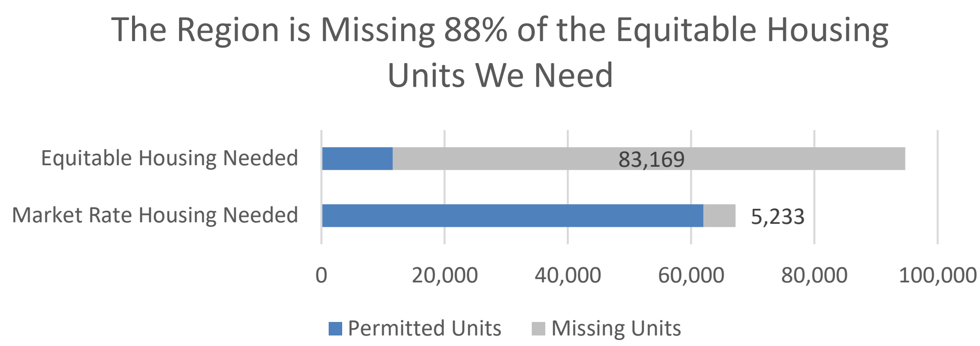
OVERVIEW

The San Diego region faces a severe housing crisis. Housing prices have far outpaced inflation and wage growth over the past decades, driving rents and home prices out of reach for many residents, forcing households to make serious trade-offs to live in the region, and contributing to a historic homelessness surge.

For decades, the housing policy discourse has failed to adequately address the scale of our housing shortfall. We are currently missing approximately 88,400 units across the region – or roughly 7% of the regional housing stock - and the vast most of the missing homes are needed for lower-income and middle-income households. We refer to this missing subsect of the housing market as “equitable housing”, which includes people with a diversity of housing needs: very low-income households making less than $50,000 per year, older adults living on fixed incomes, college students, single-parents, teachers, nurses, childcare workers, and middle-income families making up to 120% of area median income, or approximately $130,000 per year. We need more housing across the income spectrum and the need is by far the greatest for equitable housing.

What is “Equitable Housing”?

Category	AMI Tier	AMI Range	Household Income
Equitable Housing	Very Low-Income	<50% AMI	< $54,550
	Low-Income	50-80% AMI	$54,551 - $87,300
	Moderate-Income	80-120% AMI	$87,301 - $130,950
Market-rate housing	Above Moderate-Income	Over 120% AMI	$130,951 >



How Much Equitable Housing Do We Need?

Category	AMI Tier	AMI Range	Target Units	Permitted Units	Missing Units	% Shortfall
Equitable Housing	Very Low-Income	<50% AMI	36,450	3,775	32,675	90%
	Low-Income	50-80% AMI	27,700	5,126	22,574	81%
	Moderate-Income	80-120% AMI	30,610	2,690	27,920	91%
Market Rate	Above Moderate-Income	>120% AMI	67,220	61,987	5,233	8%
Equitable Housing Subtotal			*94,760*	*11,591*	*83,169*	*88%*
Grand Total			*161,980*	*73,578*	*88,402*	*55%*

Source: Results from 5th Cycle RHNA (2010-2020), SANDAG

The current 6th Cycle Regional Housing Needs Assessment (RHNA) anticipates the need for 21,500 new housing units per year, but we are currently building at less than half that rate. In fact, we haven't seen that scale of production since 1988.

The high cost of housing impacts all San Diegans: low-income residents, retirees living on a fixed income, younger generations locked out of homeownership, and struggling families trying to stay in the County. The housing crisis also drags down the regional economy as attracting and retaining businesses and employees has become increasingly challenging due to the unsustainably high cost of living. Since 2011, the County of San Diego has seen a net loss in migration, with an average of 23,000 more people moving out of San Diego than moving in each year, and those leaving the region are largely being priced out, with median incomes averaging $50,000 per year, four times lower than new residents moving into the region.

Alarmingly, housing affordability has only worsened during the COVID-19 pandemic as median asking rents increased 8.4% year over year to $2,075 a month, while median home prices surged 18.7% - among the highest increase in the nation - to a record high of $800,000.

The pandemic has also made it clear that safe, decent, affordable housing is an essential form of infrastructure that is necessary for families and communities to thrive. As we lay the groundwork for a just and equitable recovery, we must center housing as a key investment to securing long-term stability, environmental sustainability, and economic resiliency across the region.

Today's action aims to start a frank, honest, and data-driven conversation about the scale of our regional housing crisis. This letter diagnosis four housing challenges facing our region and offers pathways for transformative housing solutions, including seven specific research and policy initiatives for County staff to investigate. These solutions have the potential to accelerate housing production and preservation and to advance equity, sustainability, and affordability for all.

We urge our colleagues to join us in supporting this effort.

RECOMMENDATION(S)
SUPERVISOR TERRA LAWSON-REMER AND VICE-CHAIR NORA VARGAS

1. Direct the Chief Administrative Officer to research and evaluate the options for increasing "equitable housing" (ie. very low-income, low-income, and moderate-income housing) as described in Section 5: Principles to Orient Equitable Housing Solutions, and Section 6: Developing Transformative Housing Solutions, starting on page 14 on this letter. The Chief Administrative Officer is authorized to procure experienced and qualified consultants to assist and support the investigation of these options as needed.

2. Authorize the Director, Department of General Services in conjunction with existing as-needed consultants to perform a real estate market assessment of Sorrento Valley East and Sorrento Valley West to document general market trends and conditions for potential future acquisition and redevelopment along the transit corridor.

3. Direct the Chief Administrative Officer to develop a stakeholder outreach plan to inform the research and evaluation process. Stakeholders may include housing builders, architects, land use attorneys, lenders, tenant rights advocates, tenant legal services providers, researchers, environmental stakeholders, community-based advocates, LEED experts, philanthropic organizations, labor, local elected officials, city representatives, and impacted low-and-moderate income individuals.

4. In accordance with Section 401, Article XXIII of the County Administrative Code, authorize the Director, Department of Purchasing and Contracting, to amend existing contracts or issue competitive solicitations for consultant services necessary to implement the recommendations in this Board Letter, and upon successful negotiations and determination of a fair and reasonable price, award contracts for an Initial Term of up to one year, with four option years, and up to an additional six months, if needed; subject to the availability of funding, and to amend the contracts to reflect changes in program, funding or service requirements, subject to the availability of funds.

5. Report back to the Board with a memo detailing progress updates including, but not limited to, the following: progress on any consultant engagement efforts, progress on community and stakeholder engagement processes as well as any summarized feedback, initial research findings, policy recommendations, and deliverable timelines for each item contained in Section 6: Developing Transformative Housing Solutions by December 15, 2021, and quarterly thereafter.

6. Transfer appropriations of $1,068,000 from Housing and Community Development Services, Services & Supplies to Planning and Development Services, Salaries & Benefits ($173,000) and Services & Supplies ($895,000) for Fiscal Year 2021-22 staffing costs and

one-time study costs as outlined below based on unassigned General Fund fund balance, and approve the request to add 1.00 staff years in Planning and Development Services.

EQUITY IMPACT STATEMENT

Housing affordability and housing insecurity are key drivers of regional and statewide poverty rates. The high cost of housing impacts all San Diegans, but the burden falls disproportionately on low-income households and communities of color especially young families with children. Disparities in housing affordability, accessibility, and segregation are not incidental but directly linked to past and current discriminatory policies and practices that have exacerbated racial, ethnic, and generational gaps in housing stability, homeownership, and wealth. Inequalities across the housing market have also resulted in impediments to fair housing choice to many populations, including persons with disabilities, persons with HIV/AIDS, older adults, as well as LGBTQ+ individuals. Housing unaffordability is also a key driver of the regional homelessness crisis, which saw a sharp increase of people entering homelessness even before the COVID-19 epidemic.

FISCAL IMPACT

Funds for this request are included in the Fiscal Year (FY) 2021-22 Operational Plan for Housing and Community Development Services initially approved for the Innovative Housing Trust Fund (IHTF) and other innovative housing solutions in the FY 2021-22 Adopted Operational Plan. If approved, this request will result in costs of $200,000 in Housing and Community Development Services in the Health and Human Services Agency and costs $1,068,000 and one additional staff year in Planning and Development Services. The funding source is unassigned General Fund fund balance. Ongoing costs and funding sources will be included and identified in future Operational Plans.

BUSINESS IMPACT STATEMENT

This action will support the health and well-being of households across the region and promote sustainable economic development and regional economic competitiveness by advancing housing solutions that address housing cost burden and increase the availability of affordable and attainable housing. Further, households that are not housing cost-burdened tend to have more disposable income to stimulate local economic activity. The regional economy also stands to gain from the spillover effects from the construction and renovation of affordable housing units. Research from the National Association of Home Builders estimates that a typical 100-unit affordable housing development leads to the creation of 80 construction jobs from direct and indirect effects, and another 42 jobs supported by induced spending throughout the region.

ADVISORY BOARD STATEMENT

N/A

BACKGROUND

The San Diego region is facing a severe housing crisis. Housing prices have far outpaced inflation and wage growth over the past decades, driving rents and home prices out of reach for many residents, forcing households to make serious trade-offs to live in the region, and contributing to a historic homelessness surge.

The high cost of housing impacts all San Diegans: low-income residents, retirees living on a fixed income, younger generations locked out of homeownership, and struggling families trying to stay in the County. The housing crisis also drags down the regional economy as attracting and retaining businesses and employees has become increasingly challenging due to the unsustainably high cost of living. Since 2011, the County of San Diego has seen a net loss in migration, with an average of 23,000 more people moving out of San Diego than moving in each year, and those leaving the region are largely being priced out, with incomes four times lower than residents moving into the region.

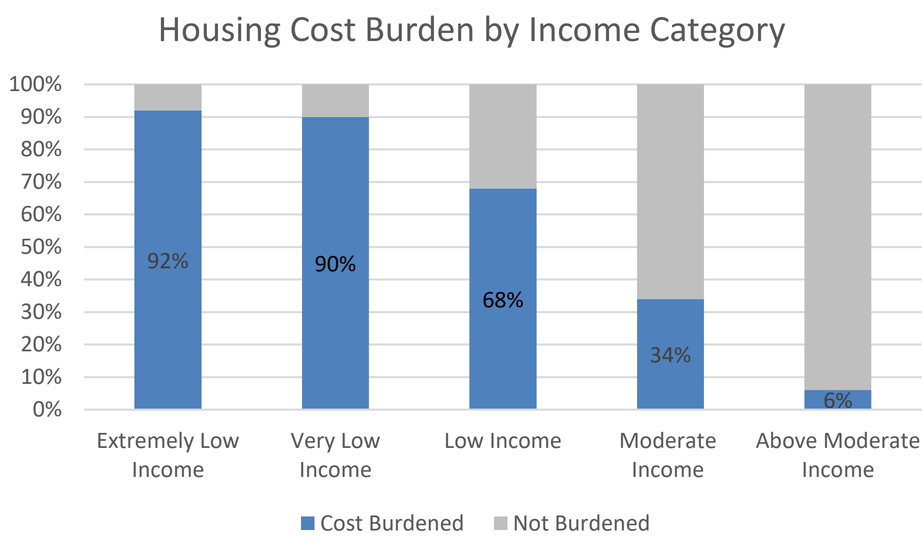
Alarmingly, housing affordability has only worsened during the COVID-19 pandemic as median asking rents increased 8.4% year over year to $2,075 a month, while median home prices surged 18.7% - among the highest increase in the nation - to a record high of $800,000.

The pandemic has also made it clear that safe, decent, affordable housing is an essential form of infrastructure that is necessary for families and communities to thrive. As we lay the groundwork for a just and equitable recovery, we must center housing as a key investment to securing long-term stability, environmental sustainability, and economic resiliency across the region.

Recognizing housing's role as critical infrastructure is not new. For example, when the United States was faced with the challenge of recovering from the Great Depression, housing was the leading edge of the solution. The Federal Housing Administration was created, which jump-started a major generational shift towards homeownership. A recent report by UC Berkeley's Terner Center for Housing Innovation makes the case that we cannot address the scale of our housing crisis by simply increasing funding levels for existing housing programs. We need to broadly rethink, adapt, and augment existing programs with transformative new approaches to put us on the path where housing is truly affordable and accessible for all San Diegans.

Section 1: San Diego's Housing Crisis

San Diego region's housing crisis ranks among the worst in the nation. According to the federal Department of Housing and Urban Development (HUD), a household that spends more than 30% of its combined income on housing is considered "cost-burdened", and households spending over 50% are considered "severely cost-burdened." The San Diego region ranks third-worst among all metropolitan areas, with 42.6% of the population suffering from cost-burden. The problem is especially acute for those at the bottom of the income spectrum, with a whopping 92% of extremely low-income families being cost-burdened compared to only 6% of above-moderate income households.



Source: Community Housing Partnership; 2021 Housing Cost Burden by Income

Housing cost burden has a disproportionate impact on renters, with 55.6% of tenants experiencing cost burden, compared to 31.3% of homeowners. Rents are so inflated that tenants in the San Diego region need to earn $36.62 per hour (2.8 times the City of San Diego minimum wage) to afford the average monthly asking rent.

Soaring home costs have also left homeownership out of reach for most of the population. The Housing Affordability Index (HAI) estimates the percentage of households that can afford to purchase a median-priced home. San Diego's HAI has dropped to 25% in the first quarter of 2021, the lowest since 2008, and more than half the national rate of 54%. Since 2012, median home prices have increased by 97% compared to a 25% increase in median household income.

The situation is even worse when you consider the broader historical trends. In the 1960s, the average California home cost 3 times the annual median income, compared to 5.9 times the median income in 2012, and 9.3 times the median income as of 2021.

Year	Median Income (HH of 3)	Median Home Price	Income/Home Price Ratio
2012	$ 68,300	$ 407,000	5.9x
2021	$ 85,600	$ 800,000	9.3x
% Change	+25%	+97%	57%

Source: HCD, Zillow

<u>Section 2: Why Housing Matters</u>

Housing is a form of basic infrastructure and an essential component needed for households, communities, and regions to thrive. Housing is the largest share of most household budgets and high housing costs often crowds out essential spending for other necessities such as food, health care, and childcare, as well as long-term investments for retirement and asset building. The importance of affordable housing can be highlighted through several key lenses.

Housing and equity

The high cost of housing is the primary driver of California's extremely high poverty rate (at 19%, which ranks first among the 50 states) when using the Supplemental Poverty Measure, which accounts for localized cost of living. A McKinsey report stated that the housing crisis costs Californians more than $140 billion per year in lost economic output. High housing costs disproportionately impact communities of color, and the effects are magnified among families with young children. Half of Black children age 0-5 live in unaffordable housing compared to one-third of young LatinX children and 17% of young white children.

These disparities are not incidental but directly linked to past and current discriminatory policies and practices that have exacerbated racial, ethnic, and generational gaps in housing stability, homeownership, and wealth. Inequalities across the housing market have also resulted in impediments to fair housing choice to many populations, including persons with disabilities, persons with HIV/AIDS, older adults, as well as LGBTQ+ individuals. Overcoming this legacy of discriminatory policies and practices will require a deep commitment across the region to affirmatively furthering fair housing and increasing access to resource-rich communities for all residents.

Lack of affordable housing is also one of the primary drivers of the homelessness crisis that is facing our region. The problem is acute in the San Diego region where the number of people entering homelessness increased by 79% from 2019 to 2020.

Housing and sustainability

Housing is an integral pillar in our regional approach to climate change. Residential development occupies the largest share of regional land use and has a profound effect on travel patterns across the County. When housing is located far from jobs, schools, services, and transit, people are forced to spend more time commuting in cars, which creates more greenhouse gas emissions. Research has shown that location-efficient affordable housing can reduce vehicle usage with a 20-40% reduction in Vehicle Miles Traveled.

As the single largest sub-sector in the construction industry, residential buildings offer the greatest potential for green technology to reduce carbon emissions. According to the U.S. Department of Energy, building operations are directly responsible for almost 40% of greenhouse gas emissions in the United States, while another 10% is linked to building construction.

Housing and a just recovery

As we move towards a long-term COVID recovery, housing must be at the center of a just recovery. An investment in housing is an investment in healthcare as housing is a key factor in the Social Determinants of Health. Further, as we begin to move towards economic recovery, the long-term outlook of the regional economy depends on our strong and diverse network of local businesses and skilled workforce. However, the economic competitiveness of our region is increasingly undermined by our high cost of housing.

<u>Section 3: A Severe Imbalance in Housing Supply and Demand</u>

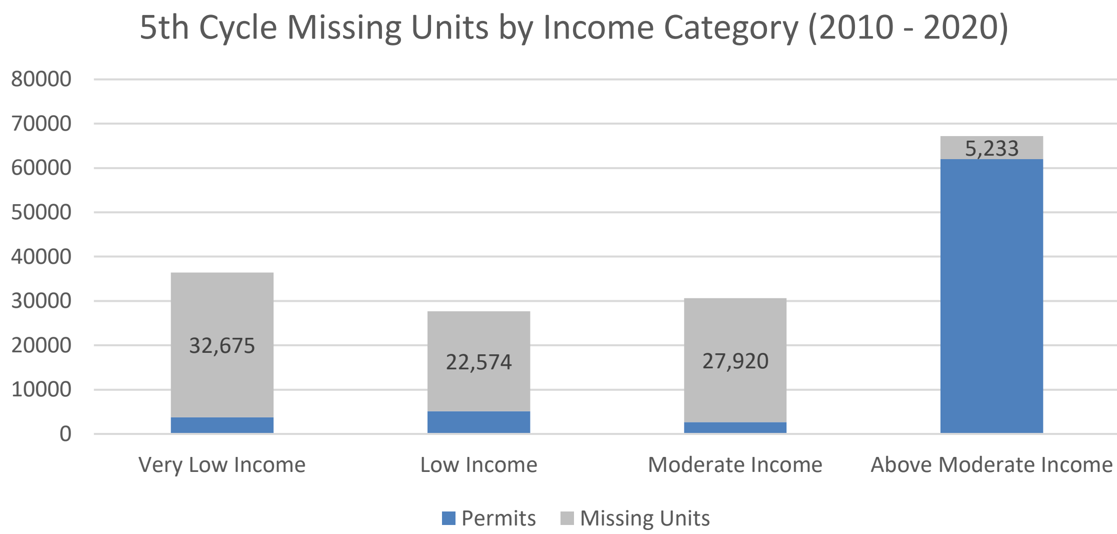
The San Diego region is missing 88,400 units

The San Diego region is facing a deep and chronic imbalance in housing supply and demand, which is a major contributor to the growing affordability crisis. We need to clearly understand the scale of the problem to move beyond short-term band-aids and find transformative solutions. This dire housing situation did not arrive suddenly but has been decades in the making as housing production has not kept pace with population and job growth. In the 1970s and 1980s, San Diego's housing stock grew rapidly as car-centric sprawling suburban development boomed. New communities like Mira Mesa (23,000 units), Scripps Ranch (12,000 units), Rancho Peñasquitos (14,000 units), and Rancho Bernardo (18,000 units), added to an annual regional production of 26,386 units per year throughout the 1970s, and 24,575 units per year throughout the 1980s. A recession in the 1990s, combined with decreasing availability of suitable land for greenfield development led to a steady and sustained decline in regional housing production. This was exacerbated by the 2008 recession that crippled the construction sector and stalled housing development for years. These decades of underbuilding coincided with profound demographic shifts, as millennials - the largest living generational group – are now entering the homebuying market, peaking in 2028.

The imbalance between housing supply and demand has been most acute in recent years, as seen in the 5th Cycle RHNA Plan which covered the decade from 2010 to 2020. By the end of the 5th Cycle RHNA Plan, there was a 55% shortfall in regional housing production translating to an 88,402-unit shortfall, far below the 161,980 units projected in the Plan.

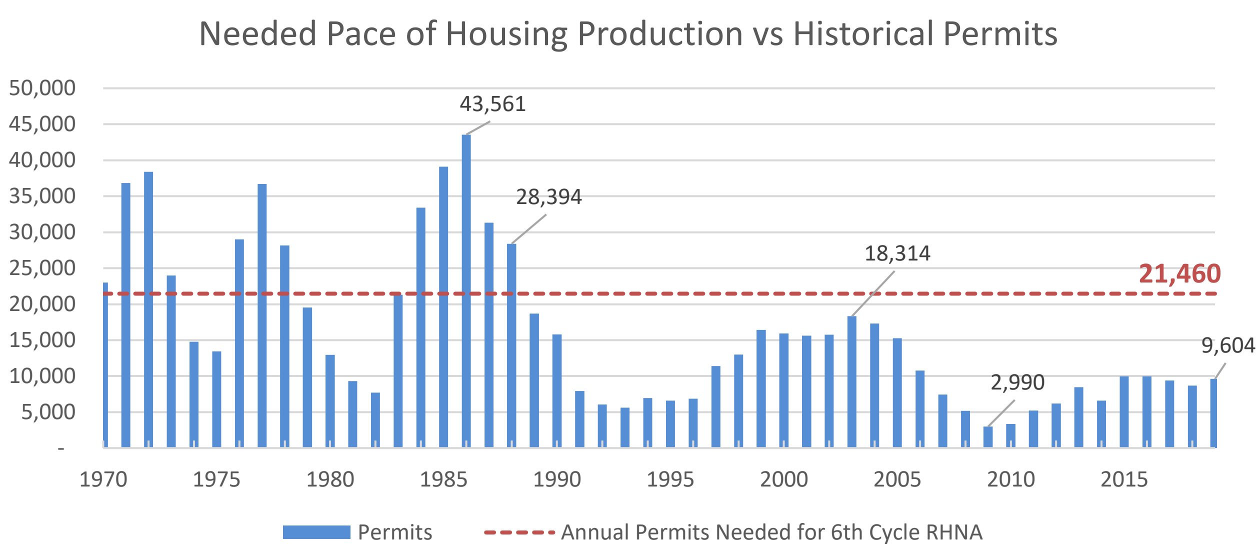
Most of the missing units are at low and moderate incomes

This housing shortfall is found at every income category but is most acute at the low and middle portions of the income spectrum. The table below shows that housing production met 92% of the need for above moderate-income units (which is largely market-rate housing). In contrast, housing production met just 10% of the need for very low-income units, 19% of the need for low-income units, and just 9% of the need for moderate-income units. Across the region, we are failing to meet the housing needs of our communities, especially for the most vulnerable and housing insecure individuals and for middle-income households, like younger families looking to enter the homeownership market for the first time.



We Need to Build Housing at Scale We Haven't Seen in a Generation

As discussed above, the San Diego region only built enough housing to meet 45% of the regional need as identified in the 5th Cycle RHNA Plan. The 6th Cycle RHNA plans for an even higher level of housing production to meet the existing backlog and keep pace with the projected population growth of 274,000 people by 2029. The region needs to average 21,460 new housing each year from 2021 to 2029. That's more than double the current rate of production of 9,604 units per year. The region has not seen that scale of new housing production since 1988.



Source: SANDAG

San Diego Region 6th Cycle RHNA Plan

Category	AMI Range	Income (Household of 3)	6th Cycle Unit Target (2021-29)	5th Cycle Permits (2010-2020)
Very Low-Income	<50% AMI	< $54,550	42,332	3,775
Low-Income	50-80% AMI	$54,551 - $87,300	26,627	5,126
Moderate-Income	80-120% AMI	$87,301 - $130,950	29,734	2,690
Above Moderate-Income	Over 120% AMI	$130,951 >	72,992	61,987
Total			171,685	73,578

Unincorporated communities are also underproducing low- and moderate-income housing

The County of San Diego is responsible for overseeing the design and implementation of the Housing Element for unincorporated communities. Like the rest of the region, the unincorporated communities have not produced enough housing units to meet the targets in the 5th Cycle RHNA Plan. The table below shows that the shortfall is most acute (95% shortfall) at the very low-income and moderate-income categories.

Unincorporated Communities 5th Cycle RHNA 2010 - 2020

Category	AMI Range	Income (Household of 3)	Target Units	Permitted Units	Missing Units	% Shortfall
Very Low-Income	<50% AMI	< $54,550	2,085	106	1,979	95%
Low-Income	50-80% AMI	$54,551 - $87,300	1,585	628	957	60%
Moderate-Income	80-120% AMI	$87,301 - $130,950	5,864	999	4,865	83%
Above Moderate-Income	>120% AMI	$130,951 >	12,878	4,271	8,607	57%
Total			22,412	6,004	16,408	73%

The County recently updated its Housing Element on July 14, 2021, to align with the production targets from SANDAG's 6th Cycle RHNA Plan. In developing this plan, SANDAG place greater allocation weight on (1) access to transit, and (2) the number of jobs in each jurisdiction. As a result, the unincorporated communities have a much smaller share of the regional RHNA housing allocation, accounting for only 6,700 units in the 6th Cycle Plan, compared to 22,412 units in the 5th Cycle Plan. However, even these reduced targets represent a daunting challenge for the County.

The table below shows the 6th Cycle RHNA targets (over 8 years) compared to the 5th Cycle RHNA production (over 10 years). For example, from 2010 to 2020, the County produced 106 very low-income units in total. Yet the 6th Cycle Plan anticipates the need to develop 1,834 very low-income units by 2029.

Unincorporated Communities 6th Cycle RHNA Plan (2021 – 2029)

Category	AMI Range	Income (Household of 3)	6th Cycle RHNA Target (2021-2029)	5th Cycle Housing Permits (2010- 2020)
Very Low-Income	<50% AMI	< $54,550	1,834	106
Low-Income	50-80% AMI	$54,551 - $87,300	992	628
Moderate-Income	80-120% AMI	$87,301 - $130,950	1,165	999

Above Moderate-Income	Over 120% AMI	$130,951 >	2,709	4,271
Total			6,700	6,004

Section 4: Why Doesn't More Housing Get Built?

We need a clear diagnosis of the problems that constrain our ability to build housing that adequately meets the needs of all San Diegans. The following four factors constrain the supply and affordability of our regional housing stock.

4.1 The Cost of Land is Too High

The supply and price of developable land is the major constraint on the ability of homebuilders to produce new homes. An LAO report found that 99% of land in coastal urban areas was already developed, leaving less than 1% vacant. In response, the price of land has skyrocketed far faster than the pace of inflation on goods, services, and wages. According to Harvard's Joint Center for Housing Studies, the median price of land per acre in the San Diego region increased by 88% from 2012 to 2017, 13 times faster than the rate of inflation and 5 times faster than the rate of household income growth.

Land price inflation in the San Diego region, and across California, has created a condition where the bulk of a home's value lies in the land that it is built upon. A 2017 Redfin analysis found that the price of land accounts for 54.2% of a home's value in the San Diego region, or $315,900, which ranked fourth highest in the nation, compared to just 15.9% in Buffalo, or $24,645.

Land Share of Home Price (2017) by Selected Metro Areas

Top Ranked Metro Area	Land Share of Home Price	Median Home Price
Los Angeles, CA	60.9%	$ 625,000
San Jose, CA	60.4%	$ 1,175,000
Santa Cruz, CA	58.0%	$ 823,500
San Diego, CA	54.2%	$ 585,000
Salinas, CA	53.4%	$ 614,000
San Francisco, CA	51.5%	$ 1,500,000
Boston, MA	50.6%	$ 517,000
San Luis Obispo, CA	44.7%	$ 599,500
New York City, NY	46.3%	$ 669,000
Oakland, CA	44.7%	$ 760,000

Bottom Ranked Metro Area	Land Share of Home Price	Median Home Price
Buffalo, NY	15.9%	$ 155,000
Indianapolis, IN	18.0%	$ 194,500
Omaha, NW	18.5%	$ 222,000
Cedar Rapids, IA	18.6%	$ 129,700
Des Moines, IA	20.1%	$ 215,000
Fayetteville, NC	44.7%	$ 599,500
Greenville, SC	20.8%	$ 220,500
Syracuse, NY	20.8%	$ 144,000
San Antonio, TX	21.4%	$ 237,500
Philadelphia, PA	21.9%	$ 225,000

The value of land, with or without a home, is largely a reflection of what it is near: jobs, schools, transit, beaches, open spaces, and other amenities. In this way, the value of land is created through the collective effort and investment of the entire regional population, and not solely the individual actions of a particular property owner. Yet the upside of land value increases accrues almost entirely to incumbent property owners. While property taxes are the primary mechanism to capture and reinvest a portion of these land value increases, California ranks in the bottom third of all State's with an effective property tax rate of 0.74%, compared to a national average of 1.07%

The property tax system also effectively rewards incumbent property owners while penalizes new homebuyers. Since 1978, property taxes have been capped at 1% of assessed property value, down from a previous statewide average of 2.67%. Further, California property tax assessments are also based on the purchase price of the property rather than the actual market value of the property that increases over time. Assessment increases are capped at a maximum of 2% per year, regardless of the actual increase in property values, which have risen by 67% over the past decade.

A 2015 LAO analysis found the typical gap in property taxes for similar property owners ranged from $1,350 to $7,500 per year, a 450% difference that penalized newer homebuyers. It also found that this land tax system incentivized vacant land to remain vacant for longer and contributed to the 33% decline in homeownership rates among younger households over the past four decades.

4.2 The Cost of Construction is Too High

Labor: An ongoing shortage of skilled trade workers remains a widespread concern by home builders and subcontractors as many skilled constructions workers left the industry after a wave of layoffs following the 2008 housing crisis. According to the National Association of Home Builders, 60% of home builders reported a worker shortage, which contributes to longer build times, more delays, and higher costs for workers and subcontractors. Further, construction productivity has lagged far behind other labor industries growing by just 21% since 1995 compared to manufacturing productivity which nearly doubled during this period.

Laws and Regulatory Requirements: Regulatory processes and barriers, such as environmental review, restrictive and exclusionary land use zoning, permitting, and entitlement processes are particularly complex in California and can significantly extend development timelines and increase unpredictability. State and local policies such as design requirements, increasingly stringent building codes, impact fees, minimum parking requirements, and permitting processing all add to development costs. For instance, in 2015, the average impact fees in the State of California were $23,455 for a single-family home, and $19,558 for a multifamily unit, nearly three times the national average. Each structured parking space can cost between $34,000 to $50,000 to construct, with the costs ultimately passed onto the consumer whether they have a car or not. A 2013 study of downtown Los Angeles found that mandatory parking requirements raised the rent for each apartment by $200 per month and the sale price of a condo by $43,000. Some studies have also found that local design requirements added an average of 7% to total development costs and prolonged community opposition can increase housing production costs by 5%.

Many of these impact fees, development fees, and Mello-Roos assessments have grown significantly over the years to pay for infrastructure improvements that would have been paid through property taxes prior to 1978. However, these fees and assessments have the perverse effect of increasing the cost of new housing development and exacerbating our regional housing shortfall.

Materials: Hard costs represents a major expense for housing projects in California. According to the National Association of Home Builders, increases in the cost of lumber has added $35,872 to the price of an average new single-family home and $12,966 to the price of an average new multi-family home and translates to a rent increase of $119 per month for a new apartment. Beyond lumber, the per-square-foot hard costs for constructing multifamily housing in California climbed by 25% over the past decade, with the most pronounced increases in plastics, concrete, and finishes.

4.3 Household Income and Wealth are Too Low

Housing supply is only half of the equation as we also need to look at income and wealth. Income: Housing cost burden can be seen as a manifestation of inefficiencies and distortions in our labor market that has produced growing income inequality over the past decades. For millions of low-wage workers, there is simply too large a gap between their monthly income and the price that housing can be reasonably built and operated. Approximately 25% of households in the region earn less than $35,000 annually and can only afford to pay $875 per month in rent to avoid being considered cost-burdened. This is far below the median asking rent of $2,250 per month, as well as the Fair Market Rent of $2,037 per month, a metric developed by HUD that sets the rent payments levels for federal housing assistance programs, as well as the median rent in all 50 states.

For thousands of such families, the math simply does not add up. Equitable housing cannot be developed with rents low enough to be affordable without significant subsidies to reduce the cost of development or increase household incomes.

Wealth: Income refers to the flow of money that comes into a household, typically through wages, business revenues, or through state benefits. In contrast, wealth refers to a household’s net worth and savings. Wealth is a significant factor that severely limits access to rungs on the housing opportunity ladder, especially homeownership. Many households simply do not have the savings for a down payment to purchase an owner-occupied home. Between 1989 and 2019, median wealth grew by 30% while median home prices increased more twice as fast, at 77%. Further, student loan debt has increased by 76% since 2000 and continues to grow at a whopping 7.8% each year. Even those living off middle-class incomes are often saddled with too but debt and too little wealth to ever hope to access the homeownership market.

There are also very significant disparities in wealth within subpopulations. For instance, white families had seven times greater wealth compared to black families, and five times greater wealth compared to Hispanic families as of 2016. These racial wealth gaps have increased over the past five decades. Age-based wealth inequality has also grown. Between 1989 and 2016, the median net worth of people 65 and older increased by 68 percent while the median net worth of those 35 and younger has declined by 25 percent.

4.4 Regional housing challenges require regional solutions

Housing markets extend across metropolitan areas and are not constrained by local political boundaries. While it's helpful to consider the disaggregated RHNA production targets for each of the 18 cities and the unincorporated communities, our regional housing challenges require greater regional coordination and partnership to address the scale of our housing shortfall and to affirmatively further fair housing. The past decades have proven that our regional toolkit is inadequately providing the housing we so desperately need. The problem has only grown more acute since the dissolution of the state redevelopment agency in 2011.

Section 5: Principles to Orient Equitable Housing Solutions

The following principles are intended to begin to orient and ground a new housing paradigm for San Diego where housing can be affordable and accessible to all residents.

- **We need to understand housing as a regional challenge that requires regional solutions**. While the County has land use authority in the unincorporated communities of the County, it also provides funding, resources, and thought leadership to projects and initiatives across the region. The County should emphasize this regional approach to housing and explore opportunities to coordinate, support, and partner with other regional entities, such as SANDAG and incorporated cities, to plan, finance, and facilitate housing production across the region.
- **We need to build the right kind of housing**. To tackle our housing crisis and climate emergency, we need to build high-quality "15-minute" communities that give San Diegans real options to walk, bike, access local services, and commute with transit. This means developing mixed-used, mixed-income communities that are walkable, age-friendly, and have excellent access to local amenities like parks, childcare, schools, jobs, and transit. While we need housing of all kinds, we need to focus production on "equitable housing", which refers to housing affordable to very-low income, low-income, and moderate-income households (0-120% AMI).
- **We need to create a better ladder of housing opportunities**. Effective housing policy should create options for people to move up and thrive in different housing opportunities. The current housing ladder is missing many rungs, and some are only accessible to certain people. For instance, many resources are narrowly focused at producing rental housing at 60% AMI but very few resources exist to create the broader range of equitable housing suitable for extremely low-income families, moderate-income renters, and people seeking to access first-time homeownership, especially in communities of color. We need to create much more housing across the income spectrum, with a special focus on equitable housing opportunities.
- **We need to intentionally create inclusive communities**. We have a responsibility to counteract the ongoing legacy of discriminatory housing policies and practices and create pathways to high-opportunity communities for all residents.
- **We need to give consideration for subpopulations** that may experience greater housing insecurity such as extremely low-income households, veterans, older adults, people with disabilities, justice-involved individuals, people with HIV/AIDS, LGBTQ+ individuals, and undocumented immigrants.

Section 6: Developing Transformative Housing Solutions

While Section 4 above diagnoses the problems in the housing system, this section articulates general pathways for transformative housing solutions as well as concrete research items for County staff to pursue.

Addressing the High Cost of Land

Land value recapture tools are among the most promising solutions to addressing the high cost of land in urban areas and have seen resounding successes across Asian and Latin America. Such tools allow local government to tap into increasing land values, especially in locations made attractive and livable through public sector infrastructure investments and helps ensure that some of the value generated by public sector investments and interventions are reinvested back into the community. There are many flavors of land value capture, from special assessment districts to inclusionary housing models to public ownership and leasing of land assets. County staff should investigate the following research items:

1. **Assessing opportunities to acquire land along key corridors to support future transit-oriented development**
   SANDAG is completing the 2021 regional plan, which outlines how San Diegans will move around the County and critical transportation priorities through 2050. This plan is a key tool for us to meet our climate emergency by investing in the creation of walkable, bikeable, and transit-rich communities. The plan will invest new transit infrastructure in major job centers, such as Sorrento Valley, which is the largest employment center in the entire County with 129,000 jobs (8.5% of the regional jobs) compared to only 19,000 households living in the area. New transit infrastructure, supported by transit-oriented land use planning, could transform this corridor into a thriving mixed-use, mixed-income, walkable community with easy access to amenities such as parks, daycares, and schools. However, transit and public infrastructure investments will also drive-up land prices, making it increasingly difficult for local governments to secure sites for equitable housing development and neighborhood amenities like community centers.

   Urban economists have found that major public infrastructure projects can increase nearby property values by 30 to 40%, and as much as 150% where conditions are ideal. A 2019 study by the Mineta Transportation Institute and San Jose State University found that the recently opened Warm Springs BART station increased property values on nearby single-family homes by 11%, creating a whopping $4 billion land value windfall accruing to property owners. Similarly, a 2020 working paper by the National Bureau of Economic Research determined that the construction of the Second Avenue Subway in New York City increased nearby private property values by 10%, creating a $7 billion windfall for property owners.

   The increased land value created by public investments is captured by the existing private property owners, or even speculators. Land value capture arrangements allow private property owners and the public to share a portion of these windfall gains and reinvest them back into the community.

   One of the simplest ways to ensure that the public collects 100% of the land value increase is for the public sector to own, lease, or develop land adjacent to major infrastructure projects. This model is widespread in East Asia, especially in Hong Kong and Japan, where transit agencies often manage and develop portfolios of real estate assets near their own rail investments.

The County should develop location, size, and land use parameters to identify sites suitable for potential mixed-use redevelopment projects in the Sorrento Valley corridor. Such projects could include mixed-income residential, commercial, and/or community facility uses such as healthcare, childcare, and schools. The County should conduct a real estate market assessment of Sorrento Valley East and Sorrento Valley West to document general market trends and conditions and identify potential parcels suitable for future acquisition and redevelopment.

Estimated Cost: Funds for this request are included in the Fiscal Year 2021-22 Operational Plan for the Department of General Services Facilities Management Internal Service Fund. If approved, this request will result in costs and revenue of approximately $150,000. The funding source is charged to client departments. There will be no change in net General Fund cost and no additional staff years. Department of General Services would be the lead department with support from Planning and Development Services and Housing and Community Development Services.

2. **Capture upzoning land value windfalls through an inclusionary housing program focused on County general plan amendments (GPAs)**
   Based on previous Board direction, the County is currently investigating options for creating a mandatory inclusionary program that would require a percentage of income-restricted equitable housing units in development projects of all sizes in the unincorporated communities. However, the scope of the current investigation is missing a key element – a specifically tailored inclusionary housing policy that captures value specifically tied to significant upzonings in general plan amendments. Such rezonings allow for greater development potential and thus increases the value of the property. A GPA-specific inclusionary program could capture part of the upzoning windfall in the form of specific requirements for developing affordable housing units.

   Many jurisdictions have inclusionary ordinances that require a percentage of affordable housing for certain projects that are significantly rezoned. The County should conduct a detailed real estate market analysis and develop recommendations for potential inclusionary requirements tied to properties with significant upzonings.

   Estimated Cost: $95,000. This component could be completed by the consultant who is being retained to complete the preparation of options for inclusionary housing criteria and ordinance implementation. Planning and Development Services would be the lead department.

Addressing the High Cost of Construction
The average price of new construction affordable housing has steadily increased over the years and is now approximately $550,000 per unit in California. High construction costs mean that each unit requires more public subsidy dollars and that projects are often delayed until enough

subsidy sources can be cobbled together. Reducing the high cost of construction can help spur affordable housing production especially among middle-income housing, which could potentially be produced with little to no public subsidy. County staff should investigate the following research items.

3. **Comprehensive New Construction Cost Study**
   The County should conduct a quantitative assessment of the localized inputs and factors that drive new construction costs in the unincorporated communities and across the region. The study may include the County of San Diego, the City of San Diego, the City of Chula Vista, and a representative city from North County. The County should develop policy recommendations to address these cost drivers. This assessment will compare the various input costs associated with new construction across the County compared to similar regions across the State and nation and include several sample project typologies including high-density and medium-density multi-family infill development under different land cost assumptions.

   This assessment should build on and significantly expand the work of the 2018 Options to Improve Housing Affordability study and be informed by UC Riverside's Feb 2020 White Paper, "Demystifying the High Cost of Multifamily Construction in California", and UC Berkeley Law's February 2018 Paper "Getting it Right: Examining the Local Land Use Entitlement Process in California to Inform Policy and Process". The assessment should include the following: land, labor, materials, minimum parking requirements, soft costs, and well as regulatory factors such as: zoning, land use, and design regulations, environmental review, permit processing, development impact fees, and the timeframe of discretionary review and entitlement process.

   The study should include policy recommendations for regulatory and programmatic approaches that can reduce the cost of new construction development with a focus on low- and moderate-income housing production. County staff should prepare a memo to the Board with a detailed proposed scope of work for this study for further direction and guidance.

   Estimated Cost: $700,000. Planning and Development Services would be the lead department.

4. **Reducing the Cost of Green Affordable Housing**
   The County should identify opportunities to expand incentives and remove barriers to increase green affordable housing development and rehabilitation. Given our climate emergency, and the leadership the County has already taken on sustainability and carbon reduction, it is imperative that we address our housing and the climate crisis in coordination, rather than in separate policy siloes.

   Green housing is a form of sustainable building that minimizes the use of resources, reduces harmful effects on the environment, and provides healthier environments for people. Green housing has well-documented climate and environmental health benefits but often require larger initial capital outlays that make it challenging to incorporate into affordable housing projects. Green housing features often include solar panels, passive housing design standards, compact fluorescent lighting, ENERGY STAR appliances, low-flow fixtures, and dual-flush toilets, environmentally preferable products, use of local sources for materials, recycling of construction materials, and homeowner awareness education.

The County should evaluate the potential of the following tools:

- Expedited review/permitting processes
- Density and height bonuses, relaxed build envelopes, reduced parking requirements, or other zoning relief
- Fee reduction/waivers
- Tax incentives
- Green building code mandates
- Grants/rebates/reimbursements/revolving loan funds
- Technical assistance
- Marketing/publicity/awards

Estimated Cost: $100,000. Planning and Development Services would be the lead department.

5. **Reducing VMT and EIR requirements for housing projects that include a significant affordable housing production.**
We need to continue to work to ensure our climate and housing affordability goals are aligned. The County should analyze opportunities to streamline and reduce VMT and EIR requirements for projects with significant affordable housing components. For the purposes of this analysis, significant affordable housing production is defined as 40% of residential floor area that is income-restricted at 60% AMI, or 60% of residential floor area that is income-restricted at 80% AMI.

Estimated Cost: This work is being led by Planning and Development Services based on prior Board direction on May 19, 2021 (1), Minute Order #13. There are no additional costs.

Addressing Incomes That are Too Low

County staff should investigate the following research items that preserve affordable housing at rent levels appropriate for low-income households.

6. **Expand Preservation of Existing Affordable Housing, including Naturally Occurring Affordable Housing**
Even as we work to increase the rate of new affordable housing construction, we cannot afford to further lose our stock of existing housing that is affordable either through regulatory agreements or as so-called “naturally occurring affordable housing” (NOAHs), which are market-rate properties that happen to have asking rents that are affordable to households making up to 80% AMI. In a 2020 report, the San Diego Housing Commission found that the City of San Diego lost 72% of its unsubsidized low-income housing stock between 2000 and 2020. In concrete numbers, in 2000, the City of San

Diego had 92,000 units with rents that were affordable for a low-income family. By 2020 there are only 25,000 units left. These NOAH units are at risk of becoming unaffordable as rents continue to rise across the region. Further, even affordable housing units that have affordability restrictions are at risk of market-rate conversion when the regulatory agreements expire.

The County should develop options to augment regional programs to incentivize and support the preservation of existing affordable housing.

Estimated Cost: $100,000. Housing and Community Development Services would be the lead department.

Addressing the Need for Regional Solutions
Regional approaches allow local governments to work together to address shared housing challenges and issues. A key benefit to exploring and tackling housing challenges at the regional level is that housing programs and strategies can be aligned across the housing markets, which is not constrained by jurisdictional boundaries. Further, a regional approach to housing can help complement and support other inter-jurisdictional issues that are aligned with housing, such as transportation, climate adaption, and environmental protections.

7. **Investigate Opportunities to Create a Regional Perennial Affordable Housing Trust Fund**
   Building on the success of the County's $50 million Innovative Housing Trust Fund, the County should investigate options for creating a perennial affordable housing trust fund. Such a locally controlled and administered fund can serve as a crucial local match source to help San Diego housing projects be more competitive in securing State grants, bond allocations, and tax credit awards. Currently, the lack of a local match source puts us at a competitive disadvantage and forces the region to forgo crucial State funding opportunities that could be leveraged to build thousands of additional units. Research by the Center for Community Change estimates that local housing trust funds leverage as much as $7.50 in additional investment for every $1 invested through the trust fund and that each project returns an average of $227,000 to the local economy each year in taxes.

   Additionally, while the County's Innovative Housing Trust Fund program has been funded up to $50 million through one-time appropriations, a perennial housing trust fund would be available on an on-going basis so that builders and affordable housing developers can create a robust pipeline of projects to boost regional housing production. The experience from other jurisdictions suggest that it takes several years for builders to develop a consistent pipeline to ramp up the scale of annual housing production beyond what one-time appropriations can accomplish.

   County staff should investigate the following:
   - Types of Fund Assistance: develop flexible options for structuring funds including low-interest and/or deferred-interest loans and permanent take-out financing options.
   - Size: Estimate annual demand and capital absorption for such funds

- Eligible Project Criteria: eligible projects could include new construction and preservation in VMT efficient locations. Preferences could be included that prioritize sustainability and green building.
- Fund Capitalization: identify potential sources for fund capitalization including dedicated housing fees, redevelopment tax increment set-aside funds, general revenue funds, bond issuances, ballot initiatives, and partnership opportunities with private and philanthropic entities (for example see the Greater Atlanta Transit-Oriented Affordable Housing Preservation Fund).

Estimated Cost: $100,000. Housing and Community Development Services would be the lead department.

Additional affordable housing research topics
Additional concepts and programs can be added to the Transformative Housing Research Agenda if they are found to:

a. Advance the production and preservation of affordable housing especially targeting the income tiers with the greatest housing cost burden and greatest gap in housing supply and demand.
b. Advance sustainability and smart growth.
c. Advance regional equity, with consideration for impacts to vulnerable populations that have historically experienced greater housing cost burden or are particularly poorly provided for under the existing housing system, including low-income individuals, young families locked out of the homeownership market, people of color, older adults, veterans, LGBTQ+ individuals, and people experiencing homelessness.

LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN
Today’s proposed action supports the Building Better Health and Living Safely initiatives in the County of San Diego’s 2021-2026 Strategic Plan, as well as the County of San Diego’s Live Well San Diego vision, by supporting individuals, families, and small businesses impacted by the COVID-19 pandemic.

Respectfully submitted,

TERRA LAWSON-REMER
Supervisor, Third District

VICE-CHAIR NORA VARGAS
Supervisor, First District

ATTACHMENT(S)
N/A

SUBJECT: TRANSFORMATIVE HOUSING SOLUTIONS THAT ADVANCE EQUITY, SUSTAINABILITY, AND AFFORDABILITY FOR ALL

AGENDA ITEM INFORMATION SHEET

REQUIRES FOUR VOTES: ☐ Yes ☒ No

WRITTEN DISCLOSURE PER COUNTY CHARTER SECTION 1000.1 REQUIRED
☐ Yes ☒ No

PREVIOUS RELEVANT BOARD ACTIONS:
N/A

BOARD POLICIES APPLICABLE:
N/A

BOARD POLICY STATEMENTS:
N/A

MANDATORY COMPLIANCE:
N/A

ORACLE AWARD NUMBER(S) AND CONTRACT AND/OR REQUISITION NUMBER(S):
N/A

ORIGINATING DEPARTMENT: District 1 and 3, Board of Supervisors

OTHER CONCURRENCE(S): N/A

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