

Attachment I – ECONOMIC ANALYSIS SUMMARY

County of San Diego, Planning & Development Services
Inclusionary Housing Ordinance

Inclusionary Housing Economic Analysis

As part of the development of the inclusionary housing program, an Economic Analysis was prepared to evaluate feasible options for requiring affordable housing in new housing developments. The goal of the Economic Analysis was to ensure that the potential program components would assist in producing affordable housing without unduly impacting overall housing production. The program components evaluated as part of the Economic Analysis were informed by best practice research and input from the public and stakeholder groups. The Economic Analysis includes a (1) Market Study, (2) Economic Feasibility Study, and (3) an In-Lieu Fee Study. The Economic Analysis was available for a 45-day public review, from January 20, 2023, to March 7, 2023.

The Economic Analysis was completed by a team of economists from AECOM, who had extensive experience in completing similar analyses. In addition, the Economic Analysis was peer reviewed by economists from a third-party consultant team, Michael Baker International (MBI), to confirm it conformed with the industry standards and to validate its approach, methodology, and findings. The peer review was completed as part of an indicative process and its findings and recommendations were used to refine and strengthen the Economic Analysis. The purpose of the peer review was to ensure a high-quality economic analysis, transparent explanation of methods, objective interpretation of results, and effective communication of the information. In addition, as inclusionary housing programs can impact the economics of housing developments, the peer review process was essential to identify and minimize any potential unintended consequences associated with the Draft Ordinance. Finally, the peer review served to improve accuracy of the Economic Analysis and ensure that the Draft Ordinance is grounded in a reliable economic analysis and are based on sound economic principles.

It is important to note that the Economic Analysis considered existing available data, including costs that are incurred by project developers, to determine affordable housing scenarios (i.e., set aside requirements) that are economically feasible. During the Planning Commission meeting held on March 24, 2023, staff received comments related to concerns with the cumulative impacts of the Inclusionary Housing program requirements when other County efforts currently underway are adopted, including the Climate Action Plan (CAP) Update, Vehicle Miles Traveled Mitigation Program (VMT Mitigation Program), and Community Benefit Agreements (CBA). The Economic Analysis can be revisited once these projects are complete, and more data is available.

To ensure a robust and sustainable housing production, the County will continue to maintain diligent monitoring and tracking of housing production in consideration of the implementation of VMT or a future VMT mitigation program, CAP, and CBA. In order to achieve this, the County will employ strategic efforts such as providing quarterly updates to the Board and conducting the Annual Housing Progress Report (APR). These measures aim to strike a balance between fostering a healthy housing market and addressing environmental and community needs effectively. In cases where there are concerns about the implementation of inclusionary housing outside of VMT efficient areas, the Planning Commission holds the authority to make recommendations, including not implementing inclusionary housing in certain areas.

Market Study

The Market Study evaluated market conditions specific to the unincorporated area. The Analysis aimed to assess the feasibility of applying an inclusionary housing requirement within different unincorporated communities. To explore whether the County's inclusionary housing program should differentiate between different communities, the Market

Study assessed the market and socioeconomic conditions in five geographies, which correspond to differences in socioeconomic conditions and housing markets. Attachment D (page 30) shows a map of these geographies.

The analysis evaluated several economic factors associated with each subarea, including population, employment, income, housing supply and demand, residential development in the pipeline, and home values. Subarea 5 includes the unincorporated communities of Borrego Springs, Boulevard, Desert, Lake Morena/Campo, Jacumba, Mountain Empire, North Mountain, Palomar Mountain, Potrero, and Tecate. The Market Study recommended exempting Subarea 5 from the inclusionary housing requirement since it would render new housing development infeasible. Attachment D provides a detailed overview of the findings from the Market Study.

Economic Feasibility Study

The Economic Analysis also included an Economic Feasibility Study which evaluated a variety of affordable housing set-aside scenarios (29 scenarios) for General Plan compliant projects that are for sale, General Plan compliant projects that are for rent, and General Plan Amendment (GPA) projects, which are projects that require approval by the Board of Supervisors.

In order to address the Board direction for GPA projects, the Economic Feasibility Study evaluated the affordable housing set-aside scenarios for GPA projects that propose to increase the density from what is included in the General Plan. Density is the number of residential units allowed on a parcel and is measured as the number of dwelling units per acre. The underlying assumption is that the increase in density would result in an increase in land value that could be captured and therefore could contribute, in part, toward the development of affordable units. The findings from the Economic Feasibility Study formed the basis for the Draft Ordinance, including the range of feasible options for each project type described in the analysis section of this report.

In-Lieu Fee Study

As part of the development of the program, an In-Lieu Fee Study was prepared to estimate the fees projects could pay in-lieu of providing the affordable housing units on-site. An in-lieu fee is a form of alternative compliance that can be offered as an option for projects to satisfy the affordable housing requirement when on-site affordable housing is not feasible or possible. In-lieu fee alternative compliance option allows a developer to pay a fee in lieu of on-site production of affordable housing units. Pursuant to State law, alternative compliance options are a required component of inclusionary housing programs, and though not required by state law, the in-lieu fee is one of the most common methods of alternative compliance. The Economic Feasibility Analysis evaluated the equivalent in-lieu fee for each project reflecting the different set-aside scenarios.

The in-lieu fee represents the costs to the developer of providing required units on-site, which is the difference in sales price (for sale) or rental revenue (for rent) between the affordable units and equivalent market rate units. This difference is also referred to as the affordability gap. As an example of how an in-lieu fee could be calculated based on AMI level of required affordability and the set-aside amount, if an affordable set-aside requirement were 10% of units at low-income, a 10-unit project would be required to set aside 1 unit as affordable. If the value of a market-rate unit in this scenario is \$500,000 and the value of the affordable unit is \$230,000, the affordability gap would be the difference between the market-rate value and the affordable unit value, and therefore would be \$270,000. The in-lieu fee would then be calculated by the affordability gap. Details on the in-lieu fee that would apply to each of the potential set-asides is available in Attachment E. The Planning Commission can recommend that the Board adopt an in-lieu fee as an alternative compliance option for certain projects, or all projects, as outlined in the Draft Ordinance.