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San Diego City Council Smart Growth and Land Use Committee San Diego’s Affordable Housing Challenge: Costs and Revenue Options

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SDHC – Affordable Housing Challenge: Costs and Revenue Options

Introduction

- 1) Direction to Act
- 2) Assessing the Problem and Components
- 3) Creating a Climate to Accelerate Housing Production
- 4) Next Steps and Timeline





SDHC – Affordable Housing Challenge: Costs and Revenue Options Introduction (Cont.)

City of San Diego requested options for addressing high affordable housing costs and potential revenue options.

Key questions to answer through research:

- Assess whether affordable housing is more costly to develop than comparable market-rate housing in the City of San Diego;
- Analyze affordable housing development costs in the City of San Diego, and provide recommendations for reducing the cost of affordable housing development; and
- Clarify roles in helping to reduce affordable housing costs:
 - Housing Authority of the City of San Diego;
 - City of San Diego;
 - State of California; and
 - Federal government





SDHC – Affordable Housing Challenge Costs and Revenue Options Introduction (Cont.)

Analysis broadened:

- 1) Understand and recommend how to drive housing production and reduce development costs to best meet San Diego's need to achieve housing affordability for all.
- 2) Create a framework for San Diego that can be replicated in other localities in California and can produce a mutually beneficial impact on State and Federal policy.
- 3) Actively work in collaboration with all drivers and detractors to housing production to educate and unite them.





SDHC – Affordable Housing Challenge: Costs and Revenue Options Framework

Framework Components:

1. Lower costs to develop housing.
2. Increase housing production.
3. Quantify housing need and its link to economic growth.

A data-based and research-informed framework is being developed.





SDHC – Affordable Housing Challenge: Costs and Revenue Options Assessment

Steps:

- ✓ Solicited input from stakeholders
- ✓ Contributed to revisions by the State of California Debt Limit Allocation Committee (CDLAC) and Tax Credit Allocation Committee (TCAC)
- ✓ Requested Keyser Marston Associates to refresh construction cost data analysis
- ✓ Collaborated with LeSar Development Consultants to create framework
- ✓ Co-founded Coalition for Housing and Jobs
- ✓ Coordinated advocacy of legislation with Coalition for Housing and Jobs
- ✓ Met with State Treasurer's office to voice support and advise of efforts





SDHC – Affordable Housing Challenge: Costs and Revenue Options Construction Cost Comparison Study

Keyser Marston Associates' (KMA) Scope of Work:

- Major Factors Driving Affordable Housing and Development Costs
- Cost Comparison of recent Market-Rate and Affordable Housing Developments
- Historic Rehabilitation Cost Comparison
- Survey of Affordable Housing Cost Containment Guidelines of other Cities
- Comparison of California Affordable Housing Developments
- Options to Reduce Affordable Housing Costs





SDHC – Affordable Housing Challenge: Costs and Revenue Options 2015-16 Legislative Session (excerpts)

Bill	Author	Summary	Support	SDHC Position	Status
AB 1335	Atkins	Creates an ongoing source of funding for affordable home development and job creation through a \$75 recording fee on real estate-related document recordings; 20% of the fund to be set-aside for single-family development.	SDHC Housing CA CHC CHPC SDHF	Wrote support letter	Passed Assembly Housing; Referred to Appropriations
AB 35	Chiu & Atkins	Increases California Low Income Housing Tax Credit by \$300 million annually, allowing more funding for affordable housing development and the ability to leverage additional federal funds of \$600 million annually	SDHC Housing CA CHC CHPC SDHF	Wrote support letter	Referred to Rev & Tax, suspense file; 5.19.15 Passed as amended, re-referred to Appropriations
AB 90	Atkins	Designates the State Dept. of Housing and Community Development as the recipient of future Federal Housing Trust Fund monies.	SDHC Housing CA CHC CHPC SDHF	Support	Passed Assembly Housing; Referred to Appropriations





SDHC – Affordable Housing Challenge: Costs and Revenue Options National and International Context

Work to Date:

- Key findings from local, regional, state, national, and international reports documenting the many system burdens on housing production.
- Leading reports are estimating that the housing affordability crisis is constraining economic growth:
 - United States: 6.5% to 13.5%, or \$1 to \$2 Trillion in Gross Domestic Product (GDP)
 - Globally: 1%, or \$650 billion in GDP
- One of the leading reports estimates that addressing the global systematic burdens on housing production could:
 - Cut development costs almost in half; and
 - Close the affordability gap completely for those in 50% to 80% AMI range.





SDHC – Affordable Housing Challenge: Costs and Revenue Options KMA Study – Summary of Key Findings

1. Major Factors Driving Affordable Housing Costs
2. Market-Rate and Affordable Housing Cost Comparison for San Diego
3. Categorization of Major Cost Impacts
4. Survey of Other Jurisdictions – Overview of Cost Limits
5. Evaluation of Potential Changes to Reduce Affordable Housing Costs



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KMA Study – Summary of Key Findings (Cont.)

1. Summary of Major Factors Driving Affordable Housing Costs from State Department of Housing and Community Development Study:

- 4+ stories are 10% (\$28,000/unit) more expensive than 1-3 story projects
- Underground/podium parking is 6% (\$18,000/unit) more expensive
- Local design review process adds 7% on average to cost
- Community opposition on 4+ stories adds 5% to costs
- Larger developments create economies of scale
 - For each 10% increase in number of units, the cost/unit declined 1.7%
- 3-bedroom units are more expensive
 - \$89,000/unit more than Single-Room Occupancy units
 - \$52,000/unit more than senior units





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KMA Study – Summary of Key Findings (Cont.)

2. Local Projects: Market-Rate & Affordable Housing Cost Comparison

- Direct costs are on par with market-rate projects
- Increase in costs occurs when additional requirements are added:
 - Additional amenities;
 - Energy and sustainability features; and
 - Prevailing wage

Affordable Housing is more expensive due to:

- Indirect Costs & Financing Costs – specialized lenders and programs
- Developer fee – front-loaded
- Architectural, Engineering, Entitlements – public design process
- Financing – multiple layers and lenders
- State programs (TCAC/CDLAC) incentivize award through various requirements





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KMA Study – Summary of Key Findings (Cont.)

3. Categorization of Major Cost Impacts:

- State Program Requirements (TCAC and CDLAC)
- Community Goals
- Revitalization Catalysts





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KMA Study – Summary of Key Findings (Cont.)

4. Survey of Other Jurisdictions' Practices Regarding Cost Limits:

- Comparison to:
 - Civic San Diego
 - Los Angeles
 - Napa
 - Sacramento
 - San Francisco
 - San Jose
- No other city is engaged in reducing the cost of affordable housing

**Where does San Diego fall in average cost
per new construction affordable housing unit?**





SDHC – Affordable Housing Challenge: Costs and Revenue Options

Create a Climate to Accelerate Housing Production

1. Lower Costs to Develop Housing

Location: Where to build?

- Location trade-offs
- Cost discussion related to externalities
- General fund expenditures for infrastructure investment
- Ongoing maintenance
- Cost of sprawl
- Public amenity burdens





SDHC – Affordable Housing Challenge: Costs and Revenue Options

Create a Climate to Accelerate Housing Production (Cont.)

1. Lower Costs to Develop Housing (Cont.)

Physical components: What to build?

- How expensive?
- What on-site project amenities are required?
- What sizes (square-feet and number of bedrooms)?
- What mixes (homeownership, rental, employment, incubator, mixed-use, commercial)?
- Construction efficiencies?
- Value engineering?
- Mass production opportunities?
- Energy efficiency?





SDHC – Affordable Housing Challenge: Costs and Revenue Options

Create a Climate to Accelerate Housing Production (Cont.)

1. Lower Costs to Develop Housing (Cont.)

What can be done to lower costs to develop housing?

- Create additional parking reductions/deviations for Transit-Oriented Development
- Support proposed legislation to revise State Density Bonus law
- Amortize or defer payment of Development Impact Fees (examples: schools, sewer, water, etc.)
- Reduce or eliminate site amenities requirements
- Reduce or eliminate commercial space in affordable housing
- Limit energy efficiency requirements to building code





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Create a Climate to Accelerate Housing Production (Cont.)

What can be done to lower costs to develop housing? (Cont.):

- Update SDHC Notice of Funding Availability to encourage cost reduction and shorten review/approval process
- Place reasonable design standards in Community Plans for neighborhood compatibility; prevent over-design
- Innovate by utilizing efficient design, modular or micro unit housing in demonstration projects
- Support TCAC/CDLAC proposed initiatives to reduce costs and improve efficiencies of the tax credit and tax-exempt multifamily housing revenue bond programs





SDHC – Affordable Housing Challenge: Costs and Revenue Options

Create a Climate to Accelerate Housing Production (Cont.)

2. Increase Housing Production

Land Use and Planning: Unlocking the value of land through maximum utilization incentives and penalties for under-utilization.

Tools include:

- Zoning
- Design guidelines
- Entitlements
- Master Environmental Impact Reports (EIRs)
- Minimum densities
- Idle land policies
- Parking
- California Environmental Quality Act





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Create a Climate to Accelerate Housing Production (Cont.)

2. Increase Housing Production (Cont.)

Innovation:

- Must have flexibility to accommodate innovations (ex. shared economy – Uber, Lyft, etc.)

Financial parameters:

- Create new funding sources (e.g., historic, TOD, SRO);
- Deferral or amortization of fees (e.g., developer, Development Impact Fees); and
- Link to other investment (Federal, State and Local funding, infrastructure and transportation investment, pooled investments funds), etc.





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Create a Climate to Accelerate Housing Production (Cont.)

2. Increase Housing Production (Cont.)

What can be done to increase housing production?

- Shorten entitlement process
- Adopt Specific Plans and Community Plans with Master EIRs
- Streamline City Environmental Review Process
- Create “by-right” or ministerial approvals for affordable housing
- Provide additional concessions that developers can purchase to create funding for affordable housing
- Provide vacant, underutilized, underperforming City-owned land for affordable housing production





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Create a Climate to Accelerate Housing Production (Cont.)

3. Quantify Housing Need and Its Link to Economic Growth

Identify our production targets based on regional and local housing needs and income levels

* Sources: SANDAG's San Diego Forward: The Regional Plan; City of San Diego Housing Element, etc.

Create and document the link of housing affordability and availability to San Diego's economic well-being





SDHC – Affordable Housing Challenge: Costs and Revenue Options

Create a Climate to Accelerate Housing Production (Cont.)

3. Quantify Housing Need and Its Link to Economic Growth (Cont.)

- Establish housing production targets
- Quantify in terms of economic growth for the San Diego region
- Engage developers, business and community stakeholders to meet targets
- Track, report out on progress and successes





SDHC – Affordable Housing Challenge: Costs and Revenue Options

Create a Climate to Accelerate Housing Production (Cont.)

3. Quantify Housing Need and Its Link to Economic Growth (Cont.)

What can be done to quantify the need for housing?

Local Leadership:

- Create production targets, vision of housing as part of infrastructure, and platform for economic growth that facilitates neighborhood acceptance
- Facilitate production by putting into place plans, policies, and systems to reduce process time and process risk
- Proactively champion projects at community approval level (examples: master EIRs, specific and general plans, appropriate zoning codes, meaningful and usable density bonuses, etc.)
- Create culture of innovation and risk-taking so pilot projects can be undertaken without fear of failure





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Create a Climate to Accelerate Housing Production (Cont.)

What can be done to quantify the need for housing? (Cont.)

State Leadership:

- Reform CEQA for urban development to diminish litigation risk
- Serve as capital provider, matching capital to needs
- Support revisions to existing programs to maximize funding
- Drive and support innovation and pilot project investment





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Create a Climate to Accelerate Housing Production (Cont.)

What can be done to quantify the need for housing? (Cont.)

Financing Systems (Public and Private):

- Ensure funding is readily available and efficiently delivered at appropriate intervals with pricing that matches risk profile
- Gaps in financing systems are identified and strategies put in place to address, such as:
 - Need for below market-rate financing for TOD predevelopment work
 - Investments to reduce private capital provider risk/costs
- Systems that have resulted in excessive layering are revisited and reworked
- Collaboration among lenders to streamline and coordinate underwriting





SDHC – Affordable Housing Challenge: Costs and Revenue Options Contributors

- San Diego City Council
- City of San Diego – Office of the Independent Budget Analyst
- Coalition for Housing and Jobs
- LeSar Development Consultants
- Keyser Marston Associates
- Mary Ellen Shay Consultants





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Questions?

