SAN DIEGO HOUSING COMMISSION

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San Diego Housing Commission (SDHC) Studies of the Cost to Develop Affordable Housing

Presentation to the SDHC Board of Commissioners

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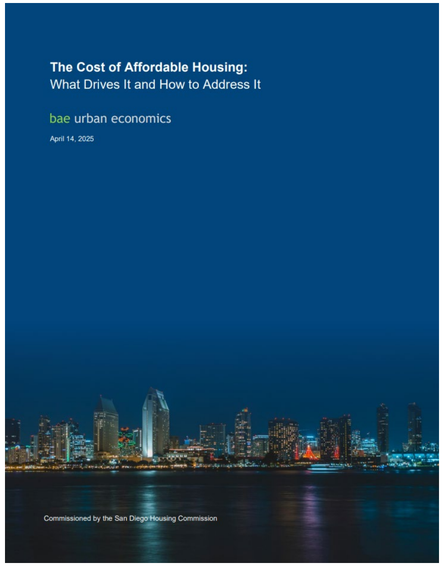
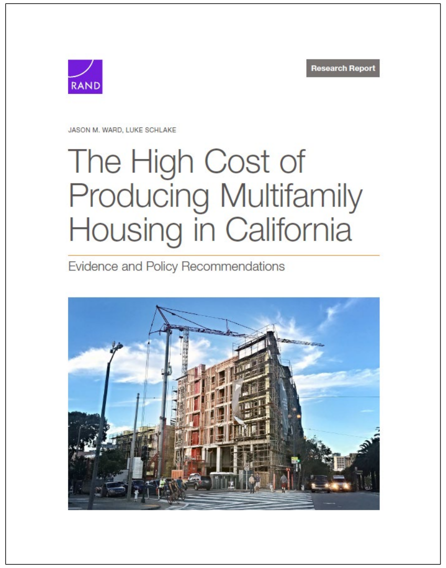
Studies of the Cost to Develop Affordable Housing – RAND
Summary of Reports

- SDHC engaged with BAE Urban Economics to conduct an analysis of the costs to develop affordable housing in the City of San Diego and how to mitigate them.
  - BAE study, "The Cost of Affordable Housing: What Drives It and How to Address It"

- April 2, 2025: RAND released its study, "The High Cost of Producing Multifamily Housing in California."
  - Multistate analysis of market-rate and affordable housing production costs
    - Regional level
  - Assumptions and Limitations
    - All costs have been adjusted to be in terms of 2019 dollars



BAE



RAND

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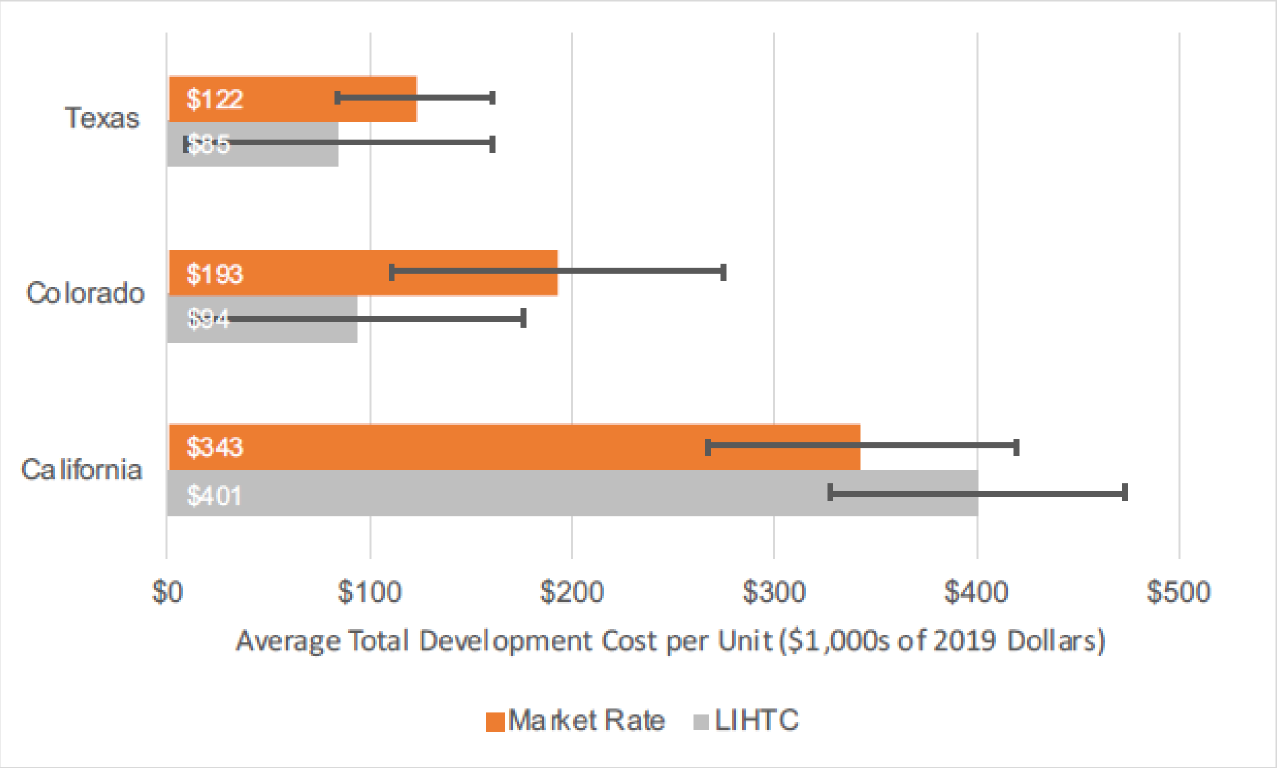
Findings / Analyses: California, Colorado and Texas (Continued)

Figure 3.1. State-Level Differences in Total Development Costs



Panel B. TDC per Unit

*All costs have been adjusted to be in terms of 2019 dollars

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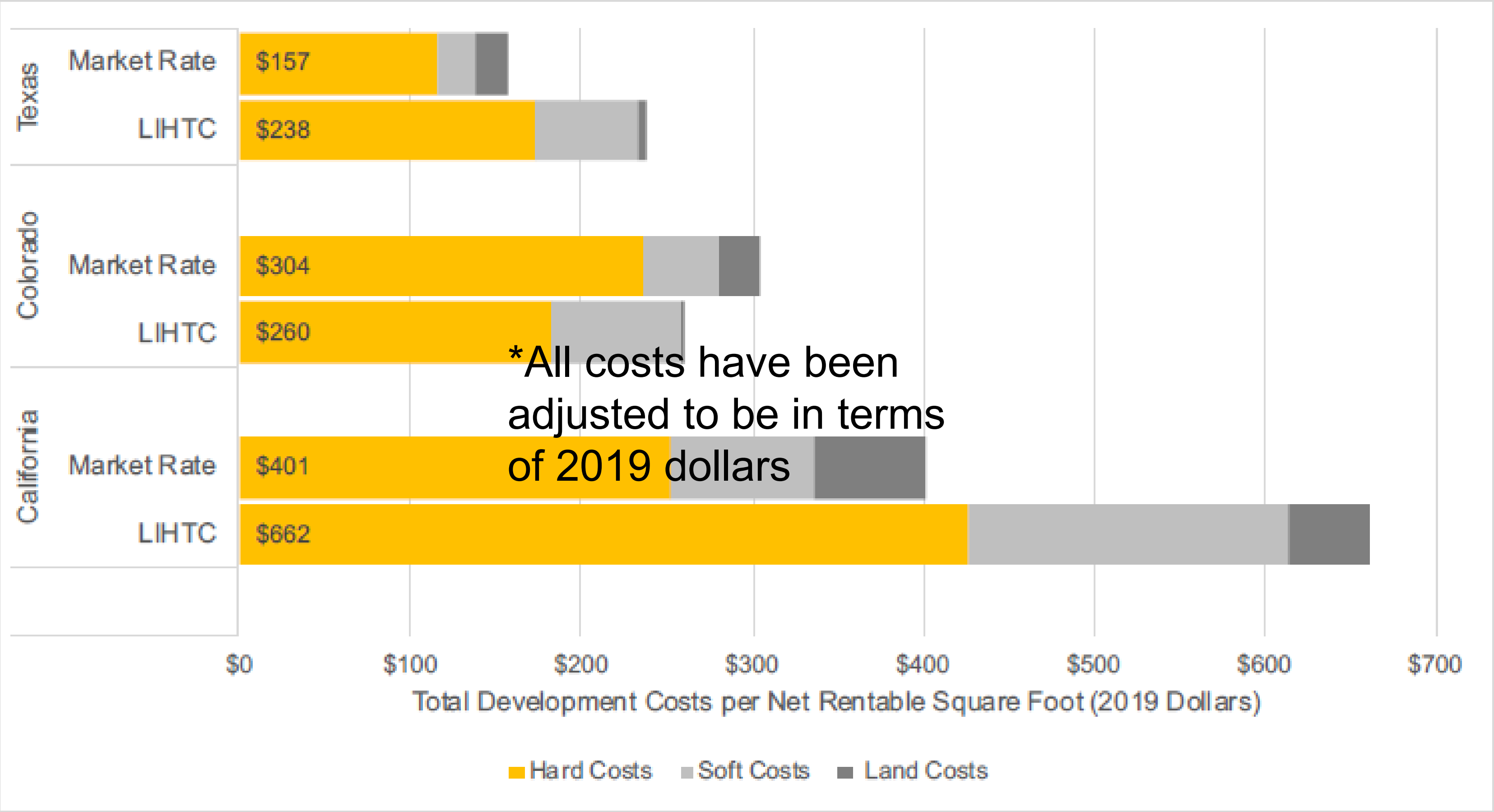
Findings / Analyses: California, Colorado and Texas

Figure S.1. State-Level Estimates of Total Development Costs and Major Cost Categories



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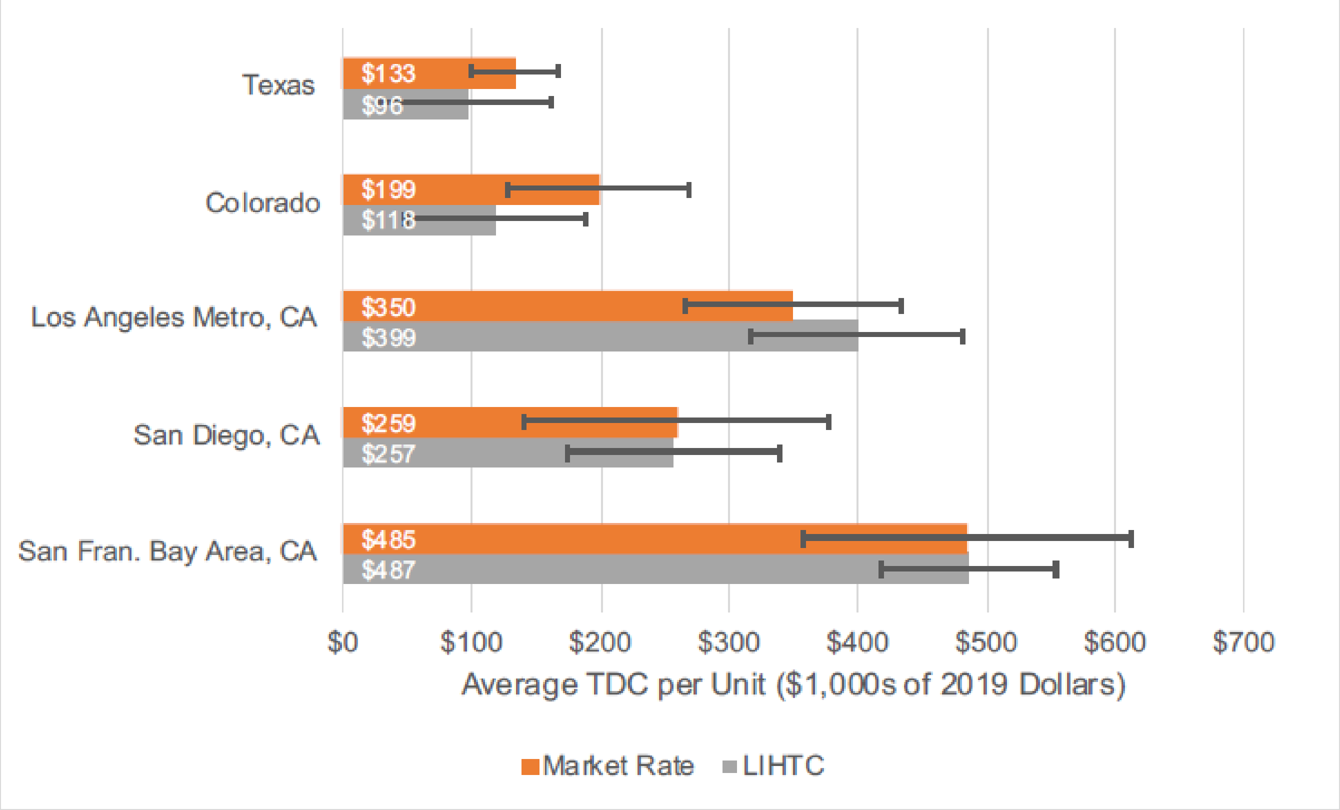
Findings / Analyses: California Metro Regions

Figure 3.3. Metro Region–Level Differences in Total Development Costs



Panel B. TDC per Unit

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San Diego Metro Region

- "San Diego has the lowest costs among metro regions in the state for both market-rate and LIHTC projects."
  - $335 average market-rate TDC per NRSF of $335 is double the average market-rate cost in Texas but is close to the Colorado market-rate average.
  - $481 average TDC per NRSF for LIHTC projects in San Diego is double the cost of LIHTC projects in Texas and is 1.8 times the LIHTC average in Colorado.
    - Costs in the Los Angeles metro region are roughly 1.3 times higher in each category

- "The average difference between market-rate and LIHTC costs per unit disappears in San Diego and San Francisco."

- "Among large metro areas, San Diego should be studied to identify potential housing policy reforms—one example is the 2019 elimination of minimum parking requirements for new housing (Mantle and Denkmann, 2019)—for other California jurisdictions to consider."

- "In San Diego, for example, impact fees are nearly 13 percent of total costs, and San Diego is the lowest-cost region we studied."

- "Closer to home, policymakers should learn from San Diego, which has the lowest average production costs of the major California metro regions in our study."

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Key Findings

- California is the most expensive state for multifamily housing production in every cost category the study considered.
  - Production costs per net rentable square foot for market-rate housing: California is 2.3 times the average cost in Texas.
  - California's publicly subsidized affordable housing costs:
    - 1.5 times the average cost of market-rate housing in California
    - More than 4 times the cost of market-rate housing in Texas

- Longer production timelines are strongly associated with higher costs.
  - The time to bring a project to completion in California is more than 22 months longer than the average time required in Texas.

- Municipal impact and development fees:
  - Texas: less than $1,000 per unit on average
  - Colorado: $12,000 per unit on average
  - California: $29,000 per unit on average
    - San Diego: More than $30,000 per unit on average (roughly 13 percent of total per-unit development costs)

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Key Findings (Continued)

- Key drivers of the high cost of publicly subsidized affordable housing production in California include:
  - Requirements for affordable housing developers to pay substantially above-market wages
  - Unusually large architectural and engineering fees (particularly in Los Angeles) likely related to highly prescriptive design requirements

- In California, production costs vary substantially across metropolitan regions.
  - San Diego has the lowest average cost for privately financed apartments (roughly twice the Texas average).
  - Costs in Los Angeles are 2.5 times the Texas average.
  - Costs in the San Francisco Bay Area are 3 times the Texas average.

- Halving the difference in market-rate production costs between California and Texas could reduce rental prices for new apartments in California by roughly 15 percent.

- Additionally, if California had Colorado's production costs for publicly subsidized affordable apartments, the roughly $1.25 billion in recent spending by the state's four largest funding programs would have produced more than four times as many units.

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RAND Recommendations

- State: Adopt a policy similar to Texas state law that requires local jurisdictions to approve or deny a proposal for a housing development within 30 days.
  - Proposed projects not approved or denied within 30 days would be presumed to be approved.
  - This could reduce the 15-month average gap in predevelopment time between California and Texas, leading to reduced production costs.

- Policies to speed construction timelines could contribute to reducing the seven-month average gap in construction time between California and Texas.
  - Example: Synchronized, rather than sequential, inspections

- Policymakers should reconsider the effects on production costs of municipal impact and development fees.
  - Roughly 10 to 40 times the levels in Texas
  - Weigh the fee revenue against potential gains from:
    - Increased property tax revenue
    - Other local revenue
    - Welfare gains from more new housing production

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RAND Recommendations (Continued)

- Weigh environmental gains from new housing subject to California's strict energy-efficiency requirements against the disincentive effects on housing production from higher costs.
    - Typical new housing produced in a less restrictive state (e.g., Texas) is a major improvement on the average efficiency of older multifamily housing stock.

- Weigh the trade-offs from prevailing wage and related labor requirements against forgone affordable housing units.

- Review design requirements associated with public funding sources and remove those that are not essential for safe, sanitary, and habitable housing.

- Study housing policies in Texas and Colorado.

- Learn from San Diego, which has the lowest average production costs of the major California metro regions in this study.

Questions & Comments