



KEYSER MARSTON ASSOCIATES™
ADVISORS IN PUBLIC/PRIVATE REAL ESTATE DEVELOPMENT

MEMORANDUM

To: Brian Schoenfisch, Program Manager
Housing, Ordinance, and Policy Team – City of San Diego Planning Department

ADVISORS IN:
REAL ESTATE
AFFORDABLE HOUSING
ECONOMIC DEVELOPMENT

From: KEYSER MARSTON ASSOCIATES, INC.

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Subject: Complete Communities: Housing Solutions
Updated Feasibility Evaluation

BERKELEY
A. JERRY KEYSER
TIMOTHY C. KELLY
DEBBIE M. KERN
DAVID DOEZEMA
KEVIN FEENEY

LOS ANGELES
KATHLEEN H. HEAD
JAMES A. RABE
GREGORY D. SOO-HOO
KEVIN E. ENGSTROM

JULIE L. ROMNEY
TIM BRETZ

SAN DIEGO
PAUL C. MARRA

I. KEY FINDINGS

Keyser Marston Associates, Inc. (KMA) has prepared this updated feasibility evaluation of the proposed Complete Communities: Housing Solutions program (CCHS Program). Key features in the current CCHS Program proposal have changed since the prior KMA feasibility analysis conducted in June 2020. The KMA key findings from the updated feasibility evaluation are as follows:

- Developers will find the current CCHS Program proposal viable under certain site, planning, and market conditions. A key feasibility factor is whether developers are able to utilize the CCHS Program bonus to achieve a substantial increase in total units without advancing to a significantly more costly construction type and/or parking configuration.
- A key purpose of the KMA financial feasibility evaluation was to assist the City of San Diego (City) in formulating the proposed CCHS Program so that it captures the value enhancement for community benefits, rather than creating a windfall in increased land value to property owners. The proposed CCHS Program -- with its combination of affordability requirements and incentives -- is appropriately formulated to strike this balance.
- It is difficult to forecast with any accuracy anticipated housing unit production as a result of the CCHS Program. However, for illustrative planning purposes, KMA believes it is reasonable to assume potential participation in the CCHS Program, within eligible areas, on the order of 10% to 20%. This low/high range yields a potential increase in multi-family unit production on the order of 300 to 800 units per year.

II. CURRENT PROGRAM PROPOSAL

KMA prepared a feasibility analysis of the proposed CCHS Program dated June 12, 2020. Since that time, City staff has modified the proposed program that will be presented for consideration by the San Diego City Council.

The key features of the current proposal include the following:

- Eligible areas include existing multi-family zoned areas of 20 units per acre or greater within Transit Priority Areas (TPAs).
- To qualify for the CCHS Program, a residential development must incorporate on-site: 15% of pre-bonus units at 50% of Area Median Income (AMI), 10% of pre-bonus units at 60% of AMI, and 15% of pre-bonus units at 120% of AMI.
- The CCHS Program defines five geographic areas with maximum allowable Floor Area Ratios (FARs) as follows: (1) Tier 1 with no maximum FAR, (2) Tier 2 with a maximum FAR of 8.0, (3) Tier 3 with a maximum FAR of 6.5, (4) Tier 4 with a maximum FAR of 4.0, and (5) the Coastal Zone with a maximum FAR of 2.5.
- Participating projects will be required to pay a Neighborhood Enhancement Fund fee in the amount of \$9 per square foot (SF) of site area.
- All units will be eligible for scaling of Development Impact Fees (DIFs) based on unit size.
- DIFs will be waived for all covenant-restricted affordable units.

III. UPDATED FEASIBILITY EVALUATION

In order to evaluate the revised CCHS Program, KMA reviewed the financial feasibility analysis that we prepared for a series of prototypical development sites (June 12, 2020 report). The KMA feasibility analysis also evaluated 11 alternative affordability requirements. For both the June 2020 feasibility analysis and this updated feasibility evaluation, KMA worked with urban designer Citythinkers to ensure that the assessment considered prototypical development sites, and potential development concepts, that represent real world conditions from both a market and design perspective. The KMA June 2020 analysis concluded that the following key factors would contribute to the viability of the proposed CCHS Program:

- The total affordability set-aside requirement does not exceed 20% of pre-bonus units.
- The required proportion of units at 60% AMI or below does not exceed 10% of pre-bonus units.
- An off-site option for the affordability units is available to developers.

The current proposal does not conform to the above parameters, i.e., 40% of pre-bonus units must be covenant-restricted; 25% must be restricted at 50%-60% AMI levels; and affordable units must be incorporated on-site. These requirements are more restrictive than previously contemplated for the CCHS Program. However, based on KMA's updated feasibility evaluation for the requirements and incentives in the current CCHS Program proposal, KMA finds that developers will still find the current CCHS Program proposal viable under certain site, planning, and market conditions. The following key factors contribute to the likelihood that developers will use the CCHS Program.

- The project does not otherwise trigger discretionary review. Over the course of industry research and stakeholder outreach conducted for the proposed CCHS Program, numerous developers indicated that the opportunity for ministerial review provides intangible benefits in the form of time and reduced development costs.
- The project is able to utilize the CCHS Program bonus, in terms of height and density, to achieve a substantial increase in total units without advancing to a significantly more costly construction type and/or parking configuration. Density bonuses do not always result in improved economics for multi-family development projects. In many cases, developers are already maximizing the achievable building height and density within the most feasible construction type (e.g., wood, steel, or concrete) and parking configuration (e.g., surface, tuck-under, wrap, podium, or subterranean). Additional height or density may trigger a change in construction type, thereby rendering the entire project more expensive to build and potentially infeasible.
- The project is located in a submarket with strong demand for smaller units, in multi-family or mixed-use buildings, that support competitive market rents.

A key purpose of the KMA financial feasibility evaluation was to assist the City in formulating the proposed CCHS Program so that it captures the value enhancement for community benefits. In any density bonus program, a jurisdiction seeks to incentivize developers to use the additional density in exchange for providing public exactions in the form of desired community benefits. Under the proposed CCHS Program, the community benefits take the form of creation of additional affordable units and neighborhood-serving infrastructure amenities. It is important to calibrate the value enhancement (density bonus) vs. community benefits (developer exactions) formula so that

developers are motivated to use the CCHS Program and create the community benefits. In particular, an effective density bonus program should not generate a windfall in increased land value to existing property owners (sellers). It is the KMA conclusion that the proposed CCHS Program, inclusive of its specific affordability requirements and offsetting incentives, is appropriately formulated to strike this balance.

IV. PROJECTED HOUSING PRODUCTION DUE TO CCHS PROGRAM

As noted above, there are a variety of site, planning, and market factors that contribute to the viability of the CCHS Program in general, and the feasibility of individual development proposals in particular. For these reasons, it is difficult to forecast with any accuracy anticipated housing unit production as a result of the CCHS Program. However, for illustrative planning purposes, KMA believes that a reasonable estimate of potential participation in the CCHS Program, within eligible areas, is on the order of 10% to 20%. Eligible areas include existing multi-family zoned areas of 20 units per acre or greater within TPAs. This low/high range yields a potential increase in multi-family unit production on the order of 300 to 800 units per year, as summarized below.

Projected Housing Production due to CCHS Program			
	No CCHS Program	With CCHS Program	
	<i>Estimated New Multi-Family Units Developed Annually</i>	<i>Projected New Multi-Family Units Developed Annually (Participating and Non-Participating in CCHS Program)</i>	
		Low @ 10%	High @ 20%
Total Annual New Multi-Family Units	2,300 units ⁽¹⁾	2,600 units	3,100 units
Increase due to CCHS Program	--	300 units	800 units
(1) Based on recent historical trends within existing multi-family zoned areas of 20 units per acre or greater within TPAs. Includes market-rate and affordable units. Excludes 100% affordable projects.			

V. LIMITING CONDITIONS

1. KMA has made extensive efforts to confirm the accuracy and timeliness of the information contained in this document. Although KMA believes all information in this document is correct, it does not guarantee the accuracy of such and assumes no responsibility for inaccuracies in the information provided by third parties.

2. The analysis, opinions, recommendations, and conclusions of this document are KMA's informed judgment based on market and economic conditions as of the date of this report. Due to the volatility of market conditions and complex dynamics influencing the economic conditions of the building and development industry, conclusions and recommended actions contained herein should not be relied upon as sole input for final business decisions regarding current and future development and planning.
3. KMA is not advising or recommending any action be taken by the City with respect to any prospective, new or existing municipal financial products or issuance of municipal securities (including with respect to the structure, timing, terms and other similar matters concerning such financial products or issues);
4. KMA is not acting as a municipal advisor to the City and does not assume any fiduciary duty hereunder, including, without limitation, a fiduciary duty to the City pursuant to Section 15B of the Exchange Act with respect to the services provided hereunder and any information and material contained in KMA's work product; and
5. The City shall discuss any such information and material contained in KMA's work product with any and all internal and/or external advisors and experts, including its own municipal advisors, that it deems appropriate before acting on the information and material.