



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: November 4, 2022

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Response to Request for Analysis on Improving Housing Affordability

OVERVIEW

On August 5, 2022 our Office received a memorandum from Council President Elo-Rivera, Councilmember Whitburn, and Councilmember Moreno requesting an analysis of certain programmatic, administrative, and structural barriers to creating new housing. The Councilmembers also requested policy recommendations to remove these barriers. This report responds to that request, and we have included the memorandum as Attachment 1 to this report. This report provides background on the City's housing affordability issues and discusses administrative and structural impediments as outlined in the memorandum.

BACKGROUND

The State of California has severe housing issues in terms of the housing supply not meeting the demand which drives high housing costs. To address decades of undersupply and keep up with projected household growth, California must plan for more than 2.5 million homes over the next eight-year cycle, and no less than one million of those homes must meet the needs of lower-income households.¹ As one of the largest cities in the State, the City of San Diego has a significant housing shortage which has led to increasing housing prices and difficulty for residents in finding housing or being able to afford to live in the City. The Spring 2022 Vacancy and Rental Rate Study, a recent study from the Southern California Rental Housing Association, showed a dramatic decline in the San Diego region rental vacancy rate, which dropped from 2.91% in Spring 2021 to 1.25% in Spring 2022.² The study further found the reduced supply of available rental housing in the San Diego region caused the weighted average rents for all unit types to increase by about 15.0% from \$1,953 to \$2,247 over the past year.

Housing is considered affordable when the occupant is paying no more than 30 percent of gross income for housing costs, including utilities. It can either be affordable in the private market or be deed restricted for specific income levels which is referred to as "affordable housing". To address

¹ [California Statewide Housing Plan](#), California Department of Housing and Community Development, March 2022.

² For the City of San Diego, the rental vacancy rate decreased from 3.3% in Spring 2021 to 0.92% in Spring 2022.

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challenges with the regional housing supply and encourage the creation of affordable housing, the City’s share of the Regional Housing Needs Assessment (RHNA) is targeted at 108,036 new housing units from 2021 to 2029, which would require the production of an average of 13,505 new housing units per year. In 2021, 4,095 new housing units were authorized through building permit issuances according to the federal Department of Housing and Urban Development’s database. At the current pace, development of housing in the City is far behind in achieving the RHNA goal. In a presentation at a joint County and City of San Diego meeting on October 3, 2022, LeSar Development Consultants indicated that an extreme amount of housing production is needed to have sufficient supply to have a downward impact on rents.³

During the last ten years, annual housing units permitted in the City has largely followed the State's trend until 2016. From 2016 to 2021, housing units permitted in the City decreased by 37%, after trending upwards in the first half of the recent decade. The number of housing units permitted in the City averaged 4,572 in the past five years, with an average year-over-year decrease of 489 units, or 8%. The chart below shows how the number of housing units permitted in the City and State has changed in the last ten years. One important point of context expressed by the Planning Department is that the City is now largely built out where previously there had been greenfield vacant land available for development. With less land available to develop, there has been a focus on infill development which is more constrained. Our Office intends to continue to monitor and further assess these trends.

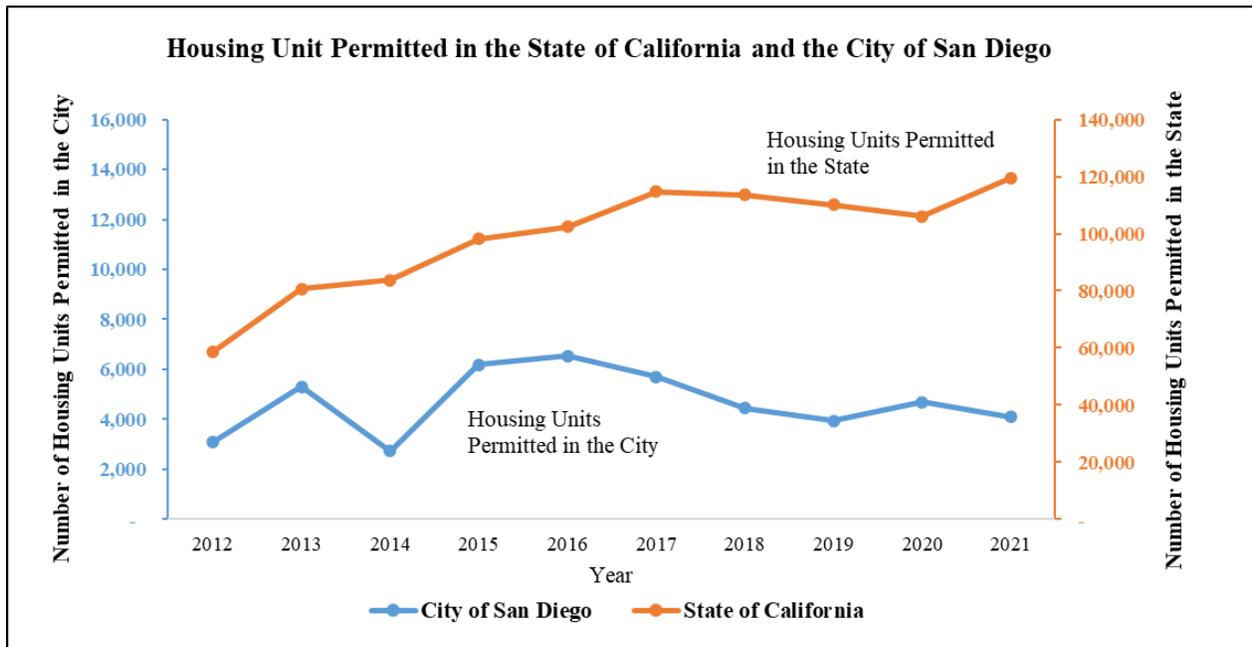


Chart based on data from the U.S. Department of Housing and Urban Development's (HUD's) Building Permits Database.

³ Since 2014, the Planning Department has updated 17 Community Plans, which has increased the capacity for more than 94,000 homes.

FISCAL AND POLICY DISCUSSION

This section of our report includes a discussion and analysis of each item requested in the attached memorandum and is presented largely in the same order as the requests in the attached memorandum.

A. Processes and Administrative Practices that Potentially Constrict Housing Creation

1. Redundant or unnecessary steps in financing, such as multiple agencies and departments within the City handling affordable housing financing sources

To create and preserve affordable housing, developers generally seek out a number of different funding sources (sometimes as many as eight) from various entities to fund a project. The San Diego Housing Commission (SDHC) is the primary agency in the City of San Diego that makes funding opportunities available to developers for affordable housing through Notices of Funding Availability (NOFA) made up of various SDHC-controlled resources as well as City resources transferred to SDHC. SDHC provides “gap financing” in the form of below-market interest rate loans which fills the void between total development cost and the funds the developer can obtain from primary bank loans, tax credit equity, and other lenders and project sources. In addition to gap financing, SDHC also makes available Project-Based Vouchers – a key resource in making projects financially feasible – and issues multifamily housing revenue bonds on behalf of affordable housing developers.

The City developed a second NOFA process for affordable housing with Council’s approval of the FY 2022 annual federal Housing and Urban Development (HUD) allocations in April 2021. Included in the request was that a portion of Community Development Block Grant (CDBG) funds be allocated through an affordable housing NOFA run by the City’s Economic Development Department (EDD). This was a policy shift, as in previous years CDBG funds for affordable housing had been transferred to SDHC to administer.

According to EDD staff, the second NOFA process was created as a result of an influx of three City fund sources: new Permanent Local Housing Allocation⁴, CDBG funds, and an influx of funding from sale proceeds of former Redevelopment Agency owned housing assets which flow into the Low and Moderate Income Housing Asset Fund (LMIHAF)⁵. With these three sources, EDD released a Request for Qualification in December 2020 and its first NOFA in May 2021, totaling \$33.2 million. Seven projects were selected for funding, and as of this writing six projects have received approval from City Council. According to EDD, the intent of the NOFA is to be rolling, with multiple funding rounds over the next two to three years. This program is known as the Bridge to Home Program. In September 2022, EDD presented to the Economic Development and Intergovernmental Relations Committee recommendations for Round 2 projects which

⁴ This is a relatively new funding source that became available to the City in FY 2022 as a result of the passage of the Building Homes and Jobs Act of 2017 (SB 2). While permissible, SDHC was ultimately not made a subrecipient of the funds. To make SDHC a subrecipient, an update to the City’s State-required plan would be necessary.

⁵ Historically, LMIHAF funds have been administered by the City’s former downtown development agency, Civic San Diego but there have been instances that SDHC administered LMIHAF in coordination with Civic San Diego.

included three projects that applied for but did not receive funding in Round 1. These projects are anticipated to come before Council for approval before the end of the 2022 calendar year.

There are several differences between EDD's and SDHC's NOFA programs, from the timing of their release, to the application and evaluation processes, to how projects are presented for approval to the City Council and Housing Authority. One especially notable difference is the program model. SDHC is typically the *first* funder for an affordable housing project. This helps a project obtain other resources by showing there is a local investment which is needed to be competitive for State and other outside resources. By contrast, EDD strives to be the *last* funder of a project. The goal is to provide "top-off funding" to increase the speed to construction for projects needing additional resources. However, we note that in practice most Council-approved Bridge to Home projects went on to pursue an application for tax credits after receiving a loan from EDD. Through a review of the Bridge to Home projects approved or pending approval, we identified some challenges with having two separate City processes. These challenges are discussed below.

Review of Bridge to Home Projects

Of the ten projects already awarded, or planned to receive Bridge to Home funding, most projects are receiving some kind of SDHC subsidy, with some receiving several types of support from SDHC, as shown in the table on the next page. Four out of the ten projects received, or are anticipated to receive, a loan from both EDD and SDHC. We note that there are several redundancies when this occurs:

- *Developer administrative costs* to prepare applications for EDD and SDHC loan funds (while there may be significant overlap in materials submitted) and enter into separate agreements if awarded.
- *Fees charged to projects* related to preparation and execution of loan agreements if a project is awarded a loan from both EDD and SDHC.
 - EDD requires a non-refundable developer deposit of \$25,000 to cover costs in connection with loan agreements, \$25,000 asset management fee, and contracts with Civic San Diego for related activities.
 - SDHC requires a \$60,000 underwriting fee, a \$25,000 legal fee for document preparation and review, \$15,000 asset management fee, and \$12,500 third-party construction review fee (if necessary).
- *City and SDHC administrative staff time* to evaluate and score applications for loan funds, review project financials with third party consultants, negotiate loans, award funds, and monitor project progress. EDD staff indicate that EDD and SDHC staff share financial analyses and meet monthly to discuss projects. Because EDD and SDHC administer different funding sources, projects are assessed with certain funding requirements in mind.
- *Repeat requests for approval from Council and the Housing Authority* in cases where a project is awarded loan funds from both entities and SDHC serves as a bond issuer.

We note that each project SDHC subsidizes in some way, whether by loans, bonds, or vouchers, is reviewed for financial viability in addition to the due diligence that EDD performs. Further, SDHC monitors all affordable housing projects once they are built – both City and SDHC funded as well as for all other City affordable housing programs – to ensure that tenants of the right income level are occupying each affordable unit. While EDD and SDHC both successfully fund hundreds

of affordable housing units, given the overlap of activities, our Office could not identify significant benefits in running parallel processes. **Council may wish to consider consolidating the administration of most or all resources available in the City to finance affordable housing under one department or agency.**

Bridge to Home Projects - City & SDHC Contributions								
Project	EDD Bridge to Home Loan	SDHC Project-Based Vouchers	SDHC Loan	SDHC as Bond Issuer	Units¹	EDD Subsidy Per Unit	SDHC Subsidy Per Unit	Total Subsidy Per Unit
<i>Council Approved Projects</i>								
Cortez Hill Apartments	√	√	√	√	88	\$ 15,909	\$ 56,818	\$ 72,727
Beyer Blvd Trolley Village	√	√	-	-	100	50,000	-	50,000
Rancho Bernardo Transit Village	√	√	-	-	100	50,000	-	50,000
Ventana al Sur	√	√	√	-	101	49,505	43,564	93,069
Iris at San Ysidro Apartments	√	√	√	√	100	50,000	23,000	73,000
Serenade on 43rd	√	-	-	-	65	100,000	-	100,000
<i>Pending Council Approval</i>								
Iris Avenue Trolley	√	√	√	√	64	74,824	76,800	151,624
17th & Commercial	√	-	-	-	108	37,037	-	37,037
Encanto Gateway	√	-	-	-	65	84,615	-	84,615
Cuatro at City Heights	√	√	-	-	117	34,188	-	34,188

¹ Includes one manager's unit for most projects which are not affordable units.

Another challenge we identified is a lack of clarity when it comes to projects that are receiving multiple local subsidies. The table above shows the total subsidy per unit which is derived from taking the total loan funds awarded to a project and dividing it by the number of units a project will produce. SDHC has set a general subsidy per unit cap of \$76,800 to ensure that funds are used efficiently and can be spread to as many projects as possible. EDD has a subsidy cap per unit set at \$100,000, and as the last funder in, it is irrespective of whether SDHC has already provided a subsidy. One example shown in the table above is Iris Avenue Trolley, which is planned to be funded at a rate of almost \$152,000 per unit when both subsidies are combined, which is atypical compared to other projects. However, total subsidy rates cannot be discerned from staff reports since total sources (including SDHC subsidies) and total development costs for the project are not reported. This is important context for Council when considering approving loan funds for a project to ensure project costs are reasonable, and Council should be able to inquire about such things as a higher-than-usual local subsidy.

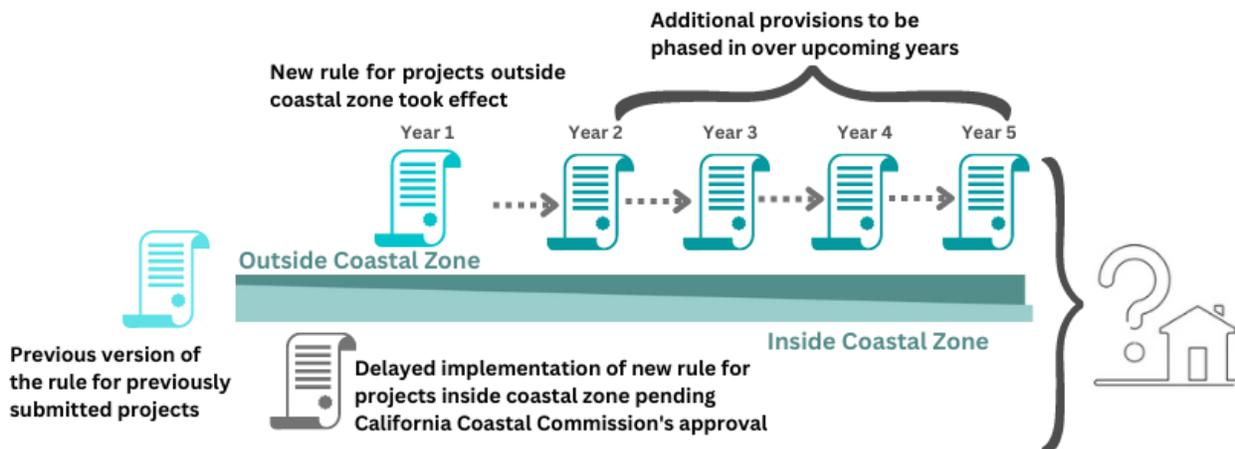
We note that SDHC staff uses a template staff report for affordable housing projects presenting the same key information (including sources and uses) and performance indicators as well as comparisons of projects of a similar type to facilitate review. **For consistency and transparency and to provide Council a more complete financial picture, we recommend that staff reports for future Bridge to Home projects brought before Council include similar items, particularly, all sources and uses proposed for a project.**

2. Permitting Process, Department Vacancies, Other Issues

(1) Redundant or unnecessary steps in approving housing permits

The Development Services Department (DSD) is the City’s “one-stop” shop for reviewing permit applications, coordinating with other oversight agencies, and issuing permits for housing development projects. The sheer volume and complexity of regulations governing housing permits constrain how fast DSD can complete its review and issue permits in compliance with regulatory requirements. These regulations include a wide range of Land Development Code, building code, environmental laws, impact fees, zoning and land use plans enacted by City, State, and federal governments. As the regulatory and enforcement agency for all public and private development projects in the City, DSD is responsible for ensuring compliance with not only City rules, but also rules promulgated by other agencies such as the State Water Resources Control Board, the U.S. Army Corps of Engineers, the federal wildlife agencies, and school districts. Despite numerous efforts at the City regulatory control level to streamline and simplify housing regulations, the volume and complexity of regulations generated by various agencies have been increasing, requiring more staff time and expertise for permit review.

Furthermore, the volatility of these ever-evolving rules and regulations often results in complexity and instability, making it difficult for staff to interpret and properly apply to projects. One amendment may sound like a simple change, but as a result, a host of different options are created that must be assessed as to which should apply to a project, as illustrated in the figure below. As regulation amendments accumulate, determining the applicability of each option resulting from each amendment can be a time-consuming task. Permit applicants often experience similar difficulties, especially smaller developers and individual property owners who may be less familiar with housing regulations. In recent years, DSD also observed increasingly more experienced professional developers, architects, and attorneys having difficulty identifying and applying applicable regulations.



As discussed above, permit review staff in DSD frequently need to track the amendment history to determine applicable rules. However, the City’s codes are currently hosted online in standalone PDF documents, which can be difficult to search and may therefore further lengthen review time. According to DSD staff, standalone PDF documents do not allow for intuitive tracking and

viewing of archived versions and hyperlinks to referenced sections. Even with the assistance from the Office of the City Clerk, the lack of tracking and easy access to historical versions can cause staff to require more time to locate the regulations they are required to apply. Likewise, permit applicants are experiencing similar, if not more, challenges. In contrast, many other cities and counties (as well as the State) make use of “code libraries” that host codes in a consolidated online system for internal and external accessing. These code libraries allow for searching based on exact phrases or synonymous and provide customized filter functions. Many jurisdictions, including the State, also house prior versions or strike-out versions of their codes in the library for quick access and cross-referencing. The City of San Diego is the only jurisdiction among the 10 most populous jurisdictions in California that does not use such a system. To create a more user-friendly code system for both staff and permit applicants, DSD and the Office of the City Clerk recently worked together to apply for a grant that would allow the City to modernize its code system. **Using a modernized system for codification may entail additional contractual expense for the City, but it could potentially speed up permit review process, benefit other departments, and improve customer experience for permit applicants and the public at large.**

Furthermore, DSD staff reported that a high volume of permit types, permit application forms and other requirements contribute to high workload and lengthy review time. Staff also reported that some of the permit application forms and requirements may be outdated or duplicative. Additionally, DSD currently has around 1,000 fee types⁶, which can be cumbersome for both staff and applicants. While the City has taken great steps to streamline permit review process through annual Land Development Code updates, the City could benefit from a comprehensive overhaul by producing concise regulations, policies, and procedures that are easy to use and understand. In concert with a transition to a code library system, **a comprehensive review and potentially a redesign of the permit review process could help reduce administrative burdens and increase permit review efficiency, thereby increasing regulatory predictability for permit applicants. This may include measures to simplify permit types and permit forms, and streamline permit fees.**

We note that DSD has initiated a department-wide effort to address issues raised by staff and stakeholders to improve its operations and service delivery. DSD plans on undertaking process mappings to identify opportunities to reduce review time by identifying bottlenecks, combining forms, eliminating duplicated steps, and simplifying processes. While a complete review of the permit process requires a substantial amount of time, mapping the permit review process is a critical first step to optimally redesigning the process. Staff, community, and other stakeholders should be engaged throughout the process review. Ongoing monitoring and regular tune-ups are required to ensure the process is effective and efficient.

Another key component of revamping the permit process is to have an effective technology solution that is based on the new business process. DSD expressed a commitment to implementing effective technology solutions to support DSD’s business processes and inform decision making. DSD’s current project tracking system – Accela – was procured through a sole source agreement in 2015. Technology advancements have occurred since that time and the current system may not meet the current needs of the Department. According to DSD, initial submissions of permit

⁶ Fees associated with various types of permit. Permit fees are different from Development Impact Fees, which are charged for the purpose of defraying all or a portion of the cost of public facilities related to a development project.

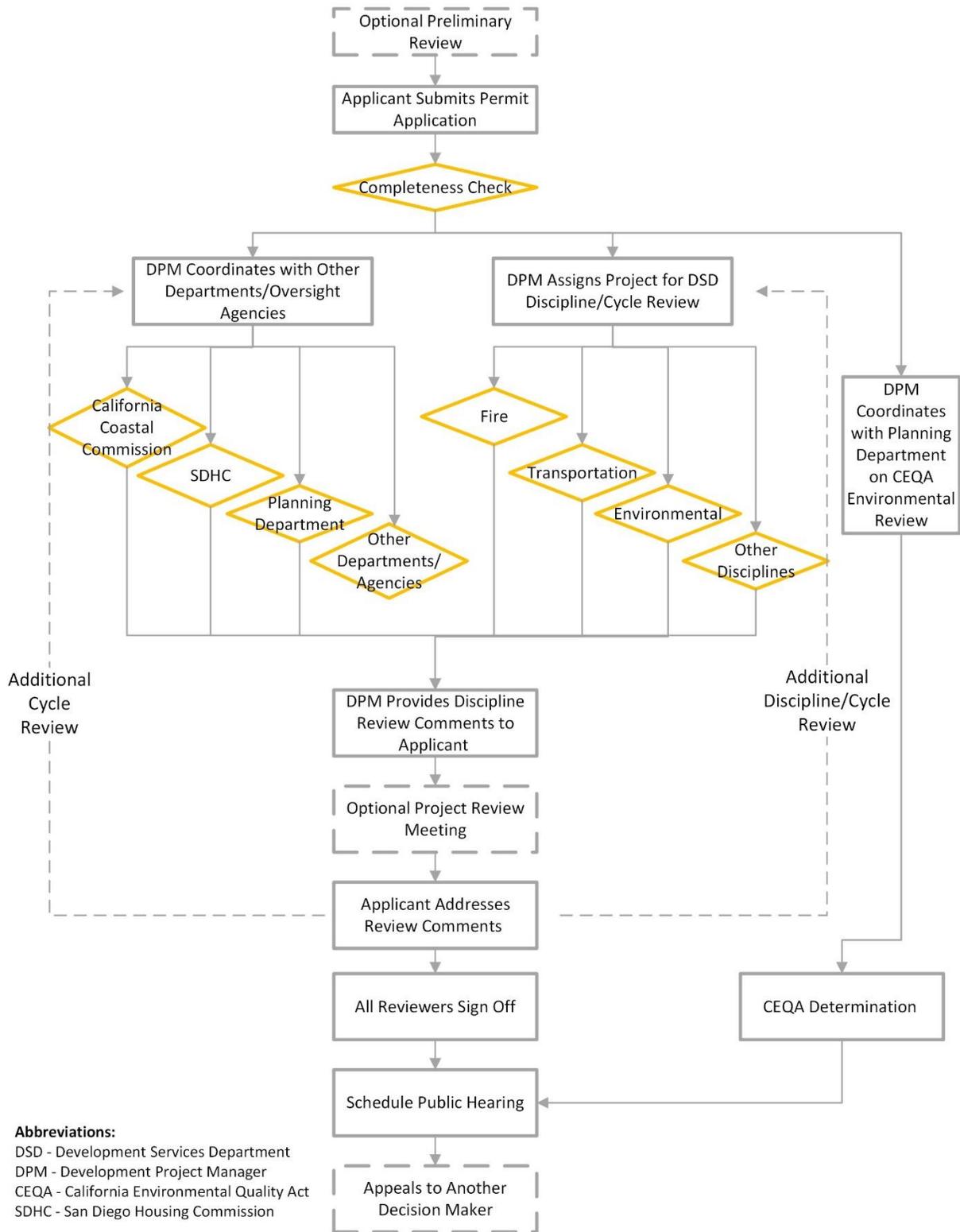
applications have a high chance of being submitted with errors, due to a variety of reasons such as incomplete applications, the complexity of various regulations governing development projects, and human errors. A new technology solution may be able to address key failure areas by providing built-in error check functions, drop-down menus, and applicable guidance to applicants to proactively address user failures and ultimately reduce permit review time. DSD plans to solicit bids for a new project tracking system by the end of 2023.

(2) The impact of staff retention and vacancy rates on the timely review and approval of housing permits

The permit review process takes multiple steps and involves multiple reviewers. Depending on the complexity of a project under review, it can take 1 to 50 City staff to review and manage an application. Once an application is submitted to DSD’s online permit system, an intake staff member conducts preliminary review and sets up the project in Accela, DSD’s permit management system. The application is then routed for review by appropriate staff depending on the applicable disciplines (e.g. environmental, planning, fire, etc.). Any issues identified by reviewers will be communicated to the applicant. Once DSD’s comments are addressed by the applicant, a new review cycle starts. Most projects take more than one review cycle, and a complex project may take several review cycles. In addition, as the City’s “one-stop shop” for permitting, DSD is responsible for coordinating and problem-solving with other public entities that also have authority over land use (e.g. Coastal Commission, school districts) during permit review. One reviewer – SDHC – has historically provided its review outside of City systems, with City staff serving as a proxy to provide SDHC’s review comments and clearances to applicants. To increase review efficiency, DSD is adding SDHC staff as reviewers to DSD’s digital permitting system and is training SDHC staff to review permit applications using the system. The chart on the following page provides a general overview of DSD’s discretionary permit review process, which requires a decision maker to exercise judgement or deliberation to approve or deny a development and may require a public hearing.⁷

⁷ DSD also processes ministerial permits, which can be approved by City staff with little or no judgement and without a public hearing if the project complies with all applicable regulations and ordinances.

Overview of Development Services Department Discretionary Permit Review Process



Sufficient staffing is important for timely permit approval. However, challenges with recruiting and retention of staff resulted in a high vacancy rate and lack of experienced staff, and this has significantly lengthened DSD's permit processing timeline. As of 2021, DSD had an overall vacancy rate of approximately 20%. There is close to a 30% vacancy rate in the Project Submittal & Management Division⁸, the division that intakes permit applications, sets them up for the appropriate level of review, manages complex discretionary project reviews, and finalizes the permits for issuance once review is complete. Additionally, DSD reported nearly 40% of DSD staff have less than 5 years of City experience, and almost 20% were at or near retirement. Constrained by limited staffing, an application for a project with complicated scope or structural components may need to wait up to 2-3 weeks just to be set up for review. Structural, Stormwater, and Land Development review are all running weeks and in some cases 2-3 months behind DSD's targeted timelines. In 2021, it took 330 days, on average, from application to issuance for discretionary projects (such as a development project located in the environmental sensitive land) and 55 days for ministerial projects (such as a single-family residential development project that does not require a public hearing). Note that these measurements also include the time taken by the applicant to work on addressing staff's review comments. DSD is currently developing alternative performance metrics to better assess the City's permit review efficiency.

DSD has been making efforts to ramp up hiring, authorizing overtime when necessary, implementing special salary adjustments, and using contractual services to help with intake and issuance backlog as well as engineering reviews. The Department estimated that by hiring one contractual staff, application intake time can be reduced by 5 days. It's worth noting that 44 full-time equivalent positions (FTEs) were added to DSD's FY 2023 budget to speed up permit review which is subject to ever-changing housing regulations, and to provide for more active management of time sensitive affordable housing projects. DSD has been studying, creating, and interviewing for these positions, and expects to fill all 44 positions by January 2023.

(3) Inconsistency and uncertainty in the City's permitting policies and processes

The Planning Department monitors and continually updates the City's Land Development Code to simplify and streamline permitting processes, eliminate redundancies, assure compliance with State and federal regulations, and implement programs that support the construction of homes including Complete Communities, affordable Accessory Dwelling Unit (ADU) density bonus, and reduction of parking requirements. The Department is currently conducting the 2022 Annual Comprehensive Code Update. The process involves reviewing and analyzing code revision requests, conducting public outreach, gathering input from stakeholders for environmental and legal review, and holding public hearings at City Council, Council Committee, and other relevant regulatory agencies. Suggested code revisions may come from City departments as well as the public including from the building industry. After Planning Department completes its internal review, proposed code amendments are made available to the public to provide feedback and presented at the Planning Commission and other advisory boards and Council Committees before adopted by City Council.

⁸ According to DSD, 8 full-time equivalent positions are in the process of being hired, which will bring down the vacancy rate to 20% in the upcoming weeks.

DSD provides suggested revisions to the Planning Department at the beginning of the process, including suggestions on regulatory reforms, corrections/clarifications, and State/federal law compliance. Planning Department officials told us that throughout the code update process, the Planning Department regularly communicates with DSD as changes occur to proposed code amendments. Although there is ongoing coordination, the code update process involves a variety of internal and external stakeholders, including members of the public, City decision-makers, various community groups and development industry stakeholders, and changes can occur quickly. DSD may not have the opportunity to evaluate the operational impact of the latest iteration of the proposed amendment. As a result, the operational impacts of code amendments on DSD – the implementation agency of housing regulations – might not always be fully assessed. **To ensure that the City adopts needed regulatory provisions and has mechanisms for effective, predictable, and equitable implementation, it is important to consider impacts on the permit review process as a result of all proposed amendments even when proposed late in the update process. Without sufficient assessment from DSD regarding the operational impact and impact on permit applicants, there could be unintended consequences. Council could consider delaying implementation of code updates by 60 or 90 days, rather than 30 days, to provide Planning and DSD time to prepare guidance to the public to help them better understand new regulations and to train staff.**

3. Delays in permitting developments utilizing State-regulated housing types, such as factory-built, prefabricated, and modular homes

Factory-Built Housing (FBH), commonly referred to as modular homes, is considered as one type of prefabricated housing⁹. Modular homes are comprised of residential structures manufactured wholly or partially off-site, in sections or building components which are assembled at the installation site to form part or most of a completed unit. The California Department of Housing and Community Development (HCD) regulates the design and construction of modular homes. The construction plans of modular homes are reviewed, approved, and stamped by a third-party Design Approval Agency certified by HCD. Modular homes are under the City’s jurisdiction for permit and onsite inspection.

To identify potential hurdles in permitting modular homes, our Office met with DSD, the Planning Department, and LeSar Development Consultants (LeSar). There was a consensus among these groups that the City’s existing codes and regulations do not pose barriers to modular housing projects. San Diego Municipal Code currently does not contain regulations on modular homes, so the City defers to State regulations. According to DSD, State-approved housing types submitted with State-approved stamped plans take less time to review and permit. **Continuing to align with State regulations, as opposed to creating additional or overlapping local regulations would help the City mitigate impediments to permitting modular housing.**

However, a few challenges were identified by LeSar. We discuss each of these challenges below as well as opportunities to scale up the City’s housing projects rooted in their proposal presented to the Land Use and Housing Committee on September 16, 2021:

⁹ Another type of prefabricated housing is manufactured housing, commonly referred to as mobile homes. The standards for construction of manufactured housing are established by the federal Department of Housing and Urban Development.

Modular Housing is an Emerging Market

Modular housing requires a manufacturing plant and sufficient staging areas to deploy prefabricated homes coming out of factory plants. Ideally, the manufacturing of homes would be in close proximity of the development site to mitigate greenhouse gas emissions related to transportation. The City of San Diego does not yet have this industry infrastructure, as modular housing is an emerging market. One way to begin incentivizing manufacturers to expand to the San Diego region could be to hold modular housing design competitions, through which manufacturers can gain market opportunities and the City can identify the housing type that best fits the City's needs. Modular housing manufacturers need to have a reliable pipeline of work within geographic reach to justify upfront costs and maximize efficiencies. As this is an emerging industry, there will be future policy considerations such as how high modular units can go which would require significant building and safety analysis.

Economics of Scale

Like many other commercial products, a key to cost savings for modular housing derives from economies of scale. Modularization requires large enough purchase orders to produce volume savings. LeSar's Scaling Up proposal contemplated ten 1,000-unit projects to achieve the cost differential. In order to keep costs down, units need to be uniform so that material can be bought in bulk. This does not mean that all units need to be the same, as some custom features can be built into the manufacturing process. According to LeSar's proposal, developing a pre-approved housing prototype¹⁰ that can be produced at scale can bring costs down to \$300,000 per unit as opposed to \$550,000 per unit the City routinely sees using the traditional process.¹¹

Land Assembly

The large-scale unmet housing demand in the City may make modular housing particularly relevant. However, planning 1,000 units, and potentially multiple 1,000 units, requires a land assembly strategy that effectively addresses existing barriers, including unfunded infrastructure needs, multiple jurisdictions over the same piece of land, regulatory hurdles, etc. The City has taken some steps to reduce these barriers. The City and the County of San Diego recently committed to working together to deliver 10,000 new affordable housing units by 2030. The City's Department of Real Estate and Airport Management (DREAM) plans to establish an up-to-date inventory of public lands that can be made available for housing. Additionally, the Planning Department is currently working with LeSar to develop a parametric model to allow for data-driven and flexible planning. Continuing to examine and strategize ways to reduce these barriers could help enable housing developers to build at scale.

There could be significant opportunity in exploring alternative ways to deliver affordable housing that may be significantly less expensive. In light of the County's and the City's joint commitment to producing 10,000 units over the next ten years and concepts in LeSar's proposal on ways to scale up the production of housing, further study will be needed to identify next steps. A working group to explore this could be an effective approach.

¹⁰ The pre-approved housing prototype would still require site plan review; mechanical, plumbing, and electrical review and inspection; and review for local regulations such as fire severity zone and setbacks, according to DSD.

¹¹ We note that the average total development cost per unit for the seven Bridge to Home projects that have this information publicly available is \$552,000. SDHC also uses \$550,000 per unit as a general maximum total development cost threshold when evaluating projects to award funding from its NOFA.

B. Structural Impediments that Constrict Housing Creation

1. Limits on building size, including height and floor area

Governments enact regulations for a variety of reasons that may directly or indirectly impact the supply and affordability of housing. Regulations generally serve a specific public purpose, and many of them are not typically characterized as structural impediments. Regulations are often considered justified if the social costs are in balance with potential social benefits. For instance, many governments enact building codes that limit heights of any development near airports to protect public safety. In the context of housing development, the question of whether a regulation constitutes a structural impediment may depend on how much housing is valued compared to other social benefits.

With that in mind, height limits and density restrictions can reduce housing production and lead to increased housing prices. The City adopted the Coastal Height Limit Overlay Zone (CHLOZ) through a citizens' initiative in 1972. As codified in [San Diego Municipal Code §132.0501 - §132.0505](#), CHLOZ limits any new building in the Coastal Zone to a maximum height of 30 feet (a maximum of three stories). The City's Coastal Zone includes coastal area between the Pacific Ocean and Interstate 5, except for Downtown, Barrio Logan, parts of Mission Bay, and a neighborhood close to the U.S.-Mexico border. Supporters of CHLOZ argue that it will protect public views and preserve the community character of specific coastal areas.

However, the creation of CHLOZ has also limited the amount of housing that can be developed. According to the Planning Department, housing developments within CHLOZ have created fewer homes built on properties with lower density, and fewer residential developments that exceed half an acre, compared to adjacent urban communities that are outside of the CHLOZ. Anecdotally, a developer of a housing project within CHLOZ communicated to the Planning Department that it would have proceeded with more units if the CHLOZ was not in place. Developments in CHLOZ are also subject to approval by the California Coastal Commission, which can result in project delays and alterations to proposed developments. Height limits, density restrictions, and lengthy approval processes can lead to a lower level of housing production and higher housing prices especially in high-demand areas like the coast. A [California Department of Housing and Community Development \(HCD\) report](#) found that coastal areas have the highest home sale prices. Rental prices are also higher in coastal areas.¹²

The CHLOZ can only be modified through voter approval. Since its enactment, three amendments were approved by voters to exempt specific projects from the 30-foot height limit. A fourth amendment to lift the 30-foot height limit in the Midway District was passed by voters in 2020. However, a San Diego Superior Court judge ruled that the ordinance was illegal, contending the City violated the California Environmental Quality Act (CEQA). City voters will be asked to vote on a repeat proposal, Measure E, on November 8th, 2022 as additional environmental analysis has been conducted. We note that Measure E only applies to the Midway-Pacific Highway Community Plan area. Even if approved by a majority of voters, the amendment would not remove any other community areas from the CHLOZ height limit.

¹² California's Housing Future: Challenges and Opportunities, California Department of Housing and Community Development, February 2018.

Separate from the City’s CHLOZ, the State of California regulates land use and coastal access in the State Coastal Zone, as defined in the California Coastal Act, passed in 1967. The State Coastal Zone largely overlaps with the CHLOZ area, with a few exceptions. Among these exceptions are some neighborhoods in Midway District, Pacific Beach, University City, and South Bay which fall in CHLOZ but not in the State Coastal Zone. A recent affordable housing proposal to build a 60-foot-high residential tower between Garnet Avenue and Rose Creek in Pacific Beach was approved by the State HCD to exceed the CHLOZ 30-foot height limit. HCD voided the CHLOZ height limit for this development on grounds that it conflicts with the State Density Bonus Law, which entitles developers to build more units if certain percentage of units are set aside as affordable units. *Notably, HCD’s determination set a precedent for residential projects in other neighborhoods outside of the State Coastal Zone.* This may help to facilitate the production of affordable housing in those areas.

CHLOZ height limit creates a tension between protecting and preserving coastal resources on the one hand, and addressing the City’s housing crisis on the other, which is felt by City staff, developers, and communities. Both coastal and non-coastal communities are needed to address the City’s housing crisis, and fair housing must include equitable housing opportunities for all individuals in all communities. In addition, Planning Department officials told us that coastal communities are typically higher use communities with infrastructure and amenities that would be beneficial for affordable housing.

As discussed above, the CHOLZ has limited housing production, which contributes to increased housing prices in coastal areas. As stakeholders indicated in a [2020 HCD report on fair housing](#), “the cost of housing construction in coastal areas is a significant barrier to housing development, which may be a contributing factor to the under production of new housing in this (San Diego County) region”¹³. **Council may wish to consider future ballot proposals to allow additional housing development projects or community areas to be exempted from the 30-foot coastal height limit and continue to implement Floor-Area-Ratio and density based bonus programs to increase the City’s overall housing production.**

In addition to height limits, the City’s zoning regulations set out both maximum floor-area-ratio (FAR) – square feet per acre – and maximum density ratio - dwelling unit per acre - for many communities. However, because the latter limits the number of homes that can be built on a given lot relative to a density level, it sometimes conflicts with the height and size that might otherwise allow for more units. As a result, construction is often constrained to the density ratio.¹⁴ A [SDHC report](#) found that studio and micro-unit developments that are not feasible under the density ratio system become the most lucrative developments under the FAR system¹⁵. The result is that developers could be pushed to build fewer units that are larger individually, which can also limit the housing supply and make housing less affordable.

¹³ Analysis of Impediments to Fair Housing, California Department of Housing and Community Development, September 2020.

¹⁴ A notable exception is downtown San Diego, which has been following FAR for years.

¹⁵ Addressing the Housing Affordability Crisis, San Diego Housing Commission, September 2017.

Multiple efforts have been made by the City in recent years to create incentives for developers to build more units. For instance, City Council adopted Complete Communities Housing Solutions Regulations in 2020 to provide a FAR based bonus for developments within Transit Priority Areas that provide housing for very low-income, low-income, or moderate-income households and that provide neighborhood-serving infrastructure and amenities. The program has four specific FAR tiers and allows for new maximum FARs that supersede the maximum FARs in the underlying base zone. Developments are also entitled to a waiver of otherwise applicable height limits (except for developments in CHLOZ). Additionally, the City has made several enhancements to the State's Density Bonus Law to stimulate affordable housing productions by going above and beyond the State density bonus. Whether to opt in FAR or density bonus program is ultimately up to the developers but continuing to implement FAR and density-based bonus programs has a strong potential to increase the City's overall housing production.

2. Lack of a dedicated local revenue for affordable housing

The City has several local funding sources dedicated to the creation and preservation of affordable housing, allocations for which vary from year to year:

- Affordable Housing Fund (\$13 million in FY 2023, not including funds already committed to projects)
- Permanent Local Housing Allocation¹⁶
- Low and Moderate Income Housing Asset Fund
- SDHC local funds (\$1.9 million in FY 2023)

These resources are pooled together into competitive NOFAs and are made available to affordable housing developers to leverage with other resources to fund affordable housing projects. Although, there are local resources available, they fall short of the City's significant need. According to SDHC, an additional \$23.5 million would be needed to provide the local gap funding for projects not funded in SDHC's last NOFA round. The \$23.5 million gap would help produce 534 units within the City of San Diego. However, according to the Regional Housing Needs Assessment, the City's share of new homes needed for low-income households over the next eight years is 44,880 which would require a pace of 5,610 per year. The City approved 451 new homes available to low-income households for construction in 2021, according to the City's [Annual Report on Homes](#), indicating there is a large unmet need. In addition to building *new* homes, the SDHC's [Affordable Housing Preservation Study \(Preservation Study\)](#) identified a need to *preserve* naturally occurring affordable housing in the private market (units without deed restrictions) at a pace of about 460 units per year.

Council has options to increase local resources available for affordable housing. The Affordable Housing Fund supports other high priorities of the City aside from affordable housing including first-time homebuyer and homelessness programs. Council could choose to allocate more Affordable Housing Funds towards affordable housing NOFAs, but it would come at the cost of other priority programs. However, if a dedicated funding source is identified to continue

¹⁶ Permanent Local Housing Allocation and Low and Moderate Income Housing Asset Fund will be part of a \$25 million NOFA to be released in FY 2023.

homelessness programs, this could reduce the reliance of those programs on the Affordable Housing Fund which would free up additional funds for affordable housing.

Another option includes allocating General Fund revenues towards affordable housing. On October 27, 2020, the Council approved a resolution accepting numerous recommendations from the [SDHC Preservation Study](#). One of them was to establish a strategic goal of using at least 20% of the FY 2021 residual Redevelopment Property Tax Trust Fund (RPTTF) revenue, plus future year growth, to preserve affordable housing (particularly naturally occurring affordable housing). To meet this goal in FY 2023, an allocation of about \$9.2 million would be needed. This revenue comes to the City through its property tax distribution and into the General Fund. It should be noted that any amount of General Fund dollars redirected to preservation would have a corresponding negative impact to the General Fund and could limit other General Funded City programs.

Finally, there are ballot measure options which could take multiple forms. There was a recent, though ultimately unsuccessful, effort to generate additional local funds to help finance affordable housing with Measure A on the November 2020 City ballot. The measure would have authorized the City to issue up to \$900 million in general obligation bonds with the associated debt service supported by a new property tax levy. The measure required a two-thirds supermajority vote but only received about 58%. There may be an opportunity to pursue a measure that only requires a simple majority vote by increasing a tax for general use as opposed to a specific use, which triggers a two-thirds voter threshold. We note that pursuit of any future ballot proposal should come in conjunction with the development of an implementation strategy and timeline. Expectations for how soon units could come online should also be transparent. The City's current process takes several years to create affordable housing; as an example, Los Angeles' \$1.2 billion affordable housing bond measure, Proposition HHH was approved in 2016 and had a goal to create 10,000 units over ten years but only 1,000 units were actually opened after five years. The City should both work to accelerate the timeline in which new affordable housing can be provided, and be transparent with the public about what that timeline is.

3. Prohibitions and regulatory constraints on single-room occupancy (SRO) housing

SDHC's report, [Preserving Affordable Housing in the City of San Diego](#) (May 2020), concluded that SRO hotels are an important part of the unrestricted housing inventory in San Diego. Residents of SROs rent out a single room, typically sharing bathrooms and/or kitchens. Although many are conversions from former hotels, SROs are primarily rented as a permanent residence. SROs provide one of the most flexible and low-cost forms of housing and primarily serve extremely low-income individuals whose only other choice would be to live on the streets or in a shelter.

SRO Hotel Ordinance Is Limited

The purpose of the City's [SRO Hotel Ordinance](#) is to ensure the retention of the existing number of SRO hotel rooms and to provide assistance to tenants of SRO hotel rooms that will be displaced by the demolition, conversion, or rehabilitation of existing SRO hotel rooms.¹⁷ The current SRO Ordinance requires that owners of SROs for which a certificate of occupancy was issued prior to January 1, 1990, provide a 1:1 replacement of units in the event of demolition or conversion of the

¹⁷ There are currently about 90 SROs and [more than 4,300 units](#) in the City.

property.¹⁸ These replacement units must be deed-restricted to serve residents earning 50 percent or below of the area median income for 30 years. In lieu of providing the replacement units, owners can contribute to an SRO replacement fund to be used for rehabilitation or new construction of SRO rooms in the City.

Based on its report, SDHC proposed amending the ordinance in summer 2021 to do more to preserve existing SROs and aid tenants displaced when SROs are shut down; however, these amendments faced opposition from property owners and have not been approved. See the [summary of proposed changes](#); a few key provisions are below:

- Requiring owners to notify the City at least 180 days before they sell their properties to give nonprofit and other organizations the right of first offer.
- Increasing relocation assistance payouts to residents who are forced to move to \$6,300 plus an additional \$2,000 lump sum for those who are seniors or have disabilities.
- Clarifying that SROs are eligible to apply for City rehabilitation funds if they agree to 30-year affordability restrictions.

This ordinance is limited in that the proposed amendment's key provisions have not been approved. Also, the ordinance does not subject properties that were issued a certificate of occupancy on January 1, 1990 or later, to the unit replacement requirement. And, importantly, the ordinance focuses on preserving hotel SROs but does not provide regulations or incentives more broadly for the conversion of commercial buildings into new SROs. **Council could consider requesting SDHC expand the Ordinance to more broadly provide regulations and incentives for commercial properties, not just hotel conversions; obtain needed approval for the revised Ordinance; and consider the challenges discussed below.**

Financial and Regulatory Challenges to Conversion of Commercial Buildings into SROs

We identified several financial and regulatory challenges to conversion or adaptive reuse of a mix of hotel/motel, office, and retail properties in San Diego.

Market-Based Decisions – SDHC officials indicated that commercial property owners are assessing the highest and best use for their properties. Decisions on potentially converting buildings to residential use likely will be affected by whether vacancy rates remain high and remote work policies continue to reduce demand for office space. It is uncertain if the market for office space reflects whether this trend will continue post pandemic.

Conversion Costs and Financial Feasibility – The current environment with supply chain issues, inflation, and very high construction-related costs could be a disincentive for owners to invest in new SRO conversions. The financial feasibility of adaptive reuse projects varies depending on the building type, structure, etc., and the process can also be quite expensive and lengthy if structural work is needed, such as seismic or environmental retrofitting.

In terms of financial feasibility, SRO conversions generally need to show a positive return on investment for owners. For example, if the average price per room of economy hotel/motel properties is substantially lower than that of studio apartments, hotel/motel conversions to SRO

¹⁸ San Diego Municipal Code Sections §143.0510 – §143.0590. The authority to regulate SROs in the City of San Diego is provided under California state law, Government Code Section 7060.

units could be financially beneficial to developers. On the other hand, office properties generally command higher prices. If the average market price of a studio apartment is significantly lower than that of a similar-sized office space, converting office properties to SRO housing may not be attractive to developers without financial incentives.

Historically SROs targeted low-income tenants due to their small size, though in the current tight housing market, some owners/developers are using commercial conversions to create upscale micro-units to target high-income tenants that are open to tiny, higher-end spaces. According to SDHC officials, in cases where developers are converting commercial property to SROs, these micro units targeted to high-end tenants may be more profitable for owners, but they are not considered affordable housing. Maintaining *affordable* units is an important component of requirements for new SRO conversions.

Location, Zoning, and Unclear Regulatory Path – Many less expensive commercial properties, such as hotels/motels, are often located in lower-income areas that are remote from jobs and needed infrastructure, such as transit, and may not allow residential use. To address these location-related challenges, it may be beneficial for housing agencies, such as SDHC, to provide financial subsidies directly to renters for a car, parking, etc. Higher sourced areas with proximity to jobs and other infrastructure generally have higher-priced office space. In these cases, subsidies or incentives for property owners might be needed to make adaptive reuse work financially.

Potential incentives for conversions of commercial buildings to SROs include reduction of permitting fees and/or expedited permitting, tax incentives, forgivable loans, and rental subsidies for owners who maintain affordable units as affordable. It is important to note that new State legislation, [Assembly Bill \(AB\) 2011](#) (discussed in additional detail later in this report), allows for ministerial, by-right approval for affordable housing on commercially-zoned lands, and also allows such approvals for mixed-income housing along commercial corridors, as long as the projects meet specified affordability, labor, and environmental criteria.

SDHC officials indicated that a section is needed in the Land Development Code to provide a clear path for conversions from office buildings to SROs. A related permitting process including requirements for fire code, electrical, allowing several suites per floor, and bathrooms to be down the hall/sharing central bathrooms, for example, is also needed.

The Goldilocks Factor – We also identified the Goldilocks Factor for conversion of commercial buildings to SROs, that is, the need to find properties that are “just right” in terms of location, structures, etc., for the project to be financially feasible. **Council may want to consider directing SDHC to conduct a survey identifying commercial buildings suitable for conversion into housing throughout the City so the City can develop a portfolio and path forward with SRO housing.**

4. Lack of resources to enforce fair housing laws, particularly around discrimination of source of income

The City’s Source of Income Ordinance (SOI) prohibits landlords from declining a tenant based solely on the household receiving rental assistance, including Section 8 housing vouchers. The law went into effect on August 1, 2019. However, our discussions with SDHC, which is responsible for issuing Section 8 vouchers, indicated that voucher discrimination was not a primary reason for

vouchers to go unused prior to SOI. As a result, SOI did not significantly improve the ability of voucher holders to find housing. We note that utilization of Section 8 housing vouchers is notably high in the City. As of September 30, 2022, SDHC has issued more than 17,000 housing vouchers, which is beyond the number of vouchers funded by the federal government. More than 129,000 households are also on the waitlist, with households waiting an average of 12 years to receive a voucher.

While voucher discrimination was not a primary reason for vouchers to go unused, voucher discrimination may have prolonged the time voucher holders spent searching for housing before successfully finding a unit. Staff indicated that other measures included as part of SOI implementation likely did contribute to a reduction in search times. For instance, the Landlord Partnership Program offers landlords a variety of financial and support incentives to encourage landlord to rent to households with vouchers. The program includes incentive payments for each unit rented to a voucher holder, reimbursements to cover repairs for property damage that exceed the security deposit, and subsidies for vacant units if voucher holders require additional time to move in.

Instead of voucher discrimination, the most cited barriers for securing a rental unit using a housing voucher related to screening criteria set by landlords, such as requiring income to be 2-3 times the tenant's portion of paid monthly rent, increasing the required credit score, clearing a criminal background check, requiring rental residency history and requiring a significant security deposit. Furthermore, SDHC officials noted that the City's tight housing market has enabled landlords to raise minimum criteria for renting to new tenants—these requirements are impacting all renters more broadly, not just low-income households.

Although voucher discrimination does not appear to be a major barrier for households with vouchers, we note that the City does not have dedicated resources to enforce SOI and largely relies on civil lawsuits to enforce the law. No department within the City appears to systematically track the number of civil lawsuits filed over voucher discrimination each year. Council could explore options to test for voucher discrimination and assess how widespread voucher discrimination is in the City. For instance, an update of the [San Diego Regional Analysis of Impediments to Fair Housing Choice Report](#) is typically released every five years and includes audit testing for other forms of housing discrimination. **Council could explore how source of income could be incorporated into future audit tests.**

Recent Changes to Create Potential New Housing Options

*Shared Housing*¹⁹: Starting in FY 2019, SDHC began allowing households with Section 8 housing vouchers to pursue shared housing options. In shared housing, a family with a voucher may share a rental unit with other resident(s), who may or may not also be receiving rental assistance. Allowing vouchers to be used for shared housing is consistent with guidance from HUD to reduce barriers to housing. Prior to this change, only individuals who were disabled and/or age 62 or older were able to use vouchers for shared housing. **Council may wish to have an update on this**

¹⁹ We note, there is also a longstanding program called HomeShare, operated by ElderHelp of San Diego since 1999, that matches seniors residing in the City interested in renting out a spare bedroom with potential roommates seeking affordable housing, including individuals experiencing or at risk of homelessness.

program presented at the Land Use and Housing Committee to understand how widely shared housing for vouchers is used and whether there are opportunities for expansion.

Recent State Legislation: [AB 2011](#) is recently enacted legislation that aims to remove barriers to housing production by allowing qualifying housing projects in commercial zones where office, retail, or parking are a principally permitted use. Beginning July 2023, the new law provides ministerial approval for 1) qualifying 100% affordable housing projects in commercial zones and 2) mixed-income housing projects that include a certain percentage of units be affordable along commercial corridors, as long as certain requirements are met such as paying prevailing wages. These projects will be exempt from the California Environmental Quality Act. We note that although this new law provides a streamlined pathway for housing production, it is quite complex with many required criteria for eligibility. This complexity could add to the staff time needed to assess a project for its applicability to these and other requirements during permit review.

Issues for Council Consideration

As our Office assessed programmatic, administrative, and structural barriers to creating new housing, we note the following policy recommendations to address these barriers. Most of these have been included as bolded text in the previous sections, but we list them together here to assist Council’s consideration and discussion. Additionally, we note several items which require further assessment.

Topic	Issues for Consideration
Redundant Steps in Financing Affordable Housing	Due to duplicative efforts resulting from running two affordable housing City NOFA processes, Council may wish to consider consolidating the administration of most or all resources available in the City to finance affordable housing under one department or agency. Additionally, for consistency and transparency and to provide Council a more complete financial picture, we recommend that staff reports for future Bridge to Home projects brought before Council include key project information, particularly, all sources and uses proposed for a project.
Streamling the Permitting Process	<p>Council may wish to consider implementing a “code library” system for housing the City’s current and past regulations. This may entail additional contractual expense for the City, but could potentially speed up permit review process, benefit other departments, and improve customer experience for permit applicants and the public at large.</p> <p>Council may wish to request a comprehensive review and potentially a redesign of the permit review process to help reduce administrative burdens and increase permit review efficiency, thereby increasing regulatory predictability for permit applicants. This may include measures to simplify permit types and permit forms, and streamline permit fees.</p>

Topic	Issues for Consideration
Inconsistency and Uncertainty in City's Permitting Processes	To ensure that the City adopts needed regulatory provisions and has mechanisms for effective, predictable, and equitable implementation, it is important to consider impacts on the permit review process as a result of all proposed amendments even when proposed late in the update process. Without sufficient assessment from DSD regarding the operational impact and impact on permit applicants, there could be unintended consequences. Council could consider delaying implementation of code updates by 60 or 90 days, rather than 30 days, to provide Planning and DSD time to prepare guidance to the public to help them better understand new regulations and to train staff.
Impediments to Factory-Built, Prefabricated, and Modular Homes	<p>Continuing to align with State regulations on modular housing, as opposed to creating additional or overlapping local regulations would help mitigate impediments to permitting modular housing.</p> <p>There could be significant opportunity in exploring alternative ways to deliver affordable housing that may be significantly less expensive. In light of the County's and the City's joint commitment to producing 10,000 units over the next ten years and concepts in LeSar's proposal on ways to scale up the production of housing with the potential to significantly reduce costs, further study will be needed on identifying next steps. A working group to explore this could be an effective approach.</p>
Limits on Building Size	Council may wish to consider future ballot proposals to allow additional housing development projects or community areas to be exempted from the 30-foot coastal height limit and continue to implement Floor-Area-Ratio and density based bonus programs to increase the City's overall housing production.
Lack of Dedicated Local Resources for Affordable Housing	Options for increasing local resources for affordable housing could include: 1) greater use of existing funds (which would come with significant budgetary tradeoffs), or 2) ballot measure options which could take multiple forms.
Constraints on Single-Room Occupancy (SRO) Housing	<p>Council may wish to request SDHC to expand the SRO Ordinance to more broadly provide regulations and incentives for commercial properties, not just hotel conversions.</p> <p>Council may wish to consider requesting City staff add a section in the Land Development Code to provide a clear path for conversions from office buildings to SROs, as well as developing a related permitting process, including requirements for fire code, electrical, allowing several suites per floor, bathrooms to be down the hall/sharing central bathrooms, etc.</p> <p>Council may want to consider directing SDHC to conduct a survey identifying commercial buildings suitable for conversion into housing throughout the City so the City can develop a portfolio and path forward with SRO housing.</p>
Lack of Resources to Enforce Discrimination of Source of Income	Council could explore how source of income could be incorporated into future fair housing audit tests to help assess how widespread voucher discrimination is in the City.
Shared Housing	Council may wish to request SDHC provide an update of its recent home sharing efforts for voucher holders to the Land Use and Housing Committee to understand how widely it is occurring and whether there are opportunities for expansion.

CONCLUSION

This report serves as our Office's response to a Councilmember memorandum requesting an analysis of various specific strategies that could potentially lead to creating more housing and in turn improve housing affordability. As requested in the memorandum, our Office reviewed the following processes and structural impediments that potentially delay or constrict the creation of new homes:

- Redundant steps in financing affordable housing
- Redundant steps in approving building permits that include housing
- Inconsistencies and uncertainty in the City's permitting process
- Impacts of staff retention and vacancy rates on timely review and approval of housing permits
- Delays in permitting developments using State-regulated housing types such as factory-built, prefabricated, and modular homes
- Limits on building size
- Lack of a dedicated local revenue for affordable housing
- Prohibitions and regulatory constraints on single-room occupancy housing
- Lack of resources to enforce fair housing laws, particularly around discrimination of source of income

Finally, we discussed recent changes that could lead to more housing opportunities.

As reflected in our Issues for Council Consideration section, there are numerous items that Council can consider pursuing. Some could be implemented quickly and at a relatively low cost, such as consulting DSD for impacts to the permitting process of proposed City housing regulations, delaying implementation of new regulations to allow time for guidance and training, or requesting SDHC provide the Land Use and Housing Committee an update on their shared housing efforts and opportunities to expand those efforts. Other considerations, including potentially developing a Land Development Code section to guide developers on the process of converting office space to affordable single-room occupancy housing, or identifying next steps for seeding the production of modular housing in San Diego, will take further study and will require further Council direction. Others may require significant resources, time, or effort to implement such as modernizing how the City hosts its Land Development Code online, redesigning the permit process, and considering potential ballot proposals to create new revenue streams for affordable housing or to remove height limits from additional neighborhoods.

Our Office appreciates the opportunity to analyze these issues, and would like to particularly thank staff from DSD, Planning, SDHC, and EDD for providing input and answering our questions related to this research request. Housing and homelessness are critical challenges facing the City. Overall, we believe it is very important to look at any and all opportunities to make progress on reducing the City's housing shortage and mitigating rising housing costs. Our Office continues to be available to assist Council with any future next steps.



Ruixin Chen
Fiscal & Policy Analyst



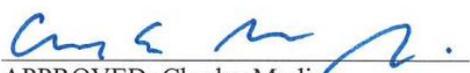
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APPROVED: Charles Modica
Independent Budget Analyst

Attachment 1: Councilmember Request Memorandum



COUNCIL PRESIDENT SEAN ELO-RIVERA
City of San Diego
Ninth District

Councilmember Stephen Whitburn

MEMORANDUM

DATE: August 5, 2022

TO: Charles Modica, Independent Budget Analyst

FROM: Council President Sean Elo-Rivera 
Councilmember Stephen Whitburn 
Councilmember Vivian Moreno 

SUBJECT: Analysis Request – Improving Housing Affordability through Creating New Homes

Background

Housing is a human right. Unfortunately, the realization of that right is eluding a growing number of San Diegans, as San Diego is among the least affordable housing markets in the nation for both renting and purchasing homes. A direct consequence of this is our City’s homelessness crisis. The San Diego Union Tribune recently [reported on a study](#) that found “communities with the highest housing costs had some of the highest rates of homelessness.”

A significant driver of our high housing costs is the City’s severe housing deficit. The [City’s 2022 Annual Report on Homes](#) found housing permits are falling short of our annual Regional Housing Needs Assessment goals, and a [2018 San Diego Housing Commission report](#) found the City needs 150,000 to 220,000 new homes by 2028. To address this deficit, the City Council in recent years approved several reforms to allow for more homes, including Complete Communities, expansion of the affordable housing density bonus program, and incentives for creating accessory dwelling units. Nonetheless, we are woefully off-pace from reaching those production goals.

Adding housing capacity is an important step, and we must continue to make land use reforms, but just as critical is how quickly the City and the Housing Authority can help create the new homes

it allows for. With this in mind, we submit the request below to analyze the short-term programmatic and administrative barriers to new housing, as well as the structural barriers that continue to constrain new housing opportunities. We request that accompanying this analysis are policy recommendations for the City Council and Housing Authority to remove these barriers.

Analysis Request

To provide the City Council a fuller understanding of the various strategies that could be deployed to create new homes and in turn improve affordability, we request the Independent Budget Analyst analyze the following:

- Processes and administrative practices that constrict or delay the creation of new homes, such as:
 - Redundant or unnecessary steps in financing, such as multiple agencies and departments within the City handling affordable housing financing sources
 - Redundant or unnecessary steps in approving housing permits
 - The impact of staff retention and vacancy rates on the timely review and approval of housing permits
 - Delays in permitting developments utilizing State-regulated housing types, such as factory-built, prefabricated, and modular homes
 - Inconsistency and uncertainty in the City’s permitting policies and processes
- Structural impediments that constrict or delay the creation of new homes, such as:
 - Limits on building size, including height and floor area
 - The lack of a dedicated local revenue for affordable housing (i.e. how many deed-restricted affordable homes are approved or pending approval and are awaiting gap financing)
 - Prohibitions and regulatory constraints on single-room occupancy (SRO) housing, including the conversion of vacant office space into SROs
 - Lack of resources to enforce fair housing laws, particularly around discrimination of source of income (i.e. housing vouchers)

There also may be opportunities to better utilize the existing housing stock to create “new” housing opportunities. This is especially pertinent for the Housing Authority, as the Housing Commission has greater influence on the housing market when either properties or residents receive public subsidies. We request the following be considered in your analysis:

- Potential to implement, incentivize, or encourage home sharing, whereby two or more unrelated people share a home. Examples include two or more voucher holders renting a single home and [peer-to-peer platforms](#) offering home sharing opportunities.
- Incentives for individuals and families to “right size” their living situation. For example, seniors often have difficulty finding smaller and affordable alternatives to their current homes.

Our vision is for every San Diegan to have access to a safe, stable, and affordable home. Eliminating unnecessary barriers to creating or accessing housing is integral to achieving this vision.

For any questions or concerns, please contact Brendan Dentino, Rules Committee Consultant, at dentinob@sandiego.gov.

CC: Jillian Kissee, Deputy Director, Office of the Independent Budget Analyst
Jessica Lawrence, Director of Policy, Office of the Mayor
Matt Vespi, Chief Financial Officer, City of San Diego