The City of
SAN DIEGO

Councilmember Scott Sherman
Seventh District
February 25th, 2019

The Benefits of New Multi-Family Housing for Existing Single-Family Homeowners

The City of San Diego is experiencing a housing crisis unlike anything seen before. Rent and home prices are near or above all-time highs throughout the City. Unlike the housing bubble of the mid-2000’s, the current increase in housing prices cannot be attributed to the various factors which ultimately caused the financial crisis. Instead, the increases are largely attributed to a lack of supply, increased costs to build, and growing demand. This housing crisis jeopardizes San Diego’s competitiveness for talent and disproportionately burdens low-income individuals.

Research has shown that individuals should not spend more than 30% of their monthly income on housing.\(^1\) In the San Diego region, over 50% are spending more than 30% of their income on housing, and over 28% are spending a majority of their income on rent.\(^2\) This measure of affordability is attributed to a median monthly rent of $1,960 according to Marketpointe Realty Advisors and a median house price of $565,000 according to CoreLogic. In San Diego, a salary of $132,420 is needed in order to afford the median priced house.\(^3\) Consequently, San Diego is


ranked as the 7th worst city in the nation to build wealth.\textsuperscript{4} As residents become more housing burdened, they become less able to accumulate wealth.

San Diego’s housing crisis did not occur overnight. While San Diego has been and always will be one of the best locations in the United States to live, in the past, housing supply has kept up with demand. Unfortunately, that is no longer the case. In the past decade, housing production rates have been less than half the rate of population growth. San Diego’s current housing deficit is estimated to be 130,000 units. \textsuperscript{5} This means life-long San Diegans can no longer find a place to live, much less an affordable one. As a result, San Diego has experienced an exodus of up to 14,000 people a year since the late 2000s.\textsuperscript{6}

San Diego’s housing crisis can be attributed to two primary causes: the high cost of building and lack of new home construction. Many recent studies address the high cost of building. One study suggests permitting fees and other regulatory hurdles in San Diego can account for forty percent of the cost of a new home.\textsuperscript{7} Contributing to the regulatory burden are outdated community plans, which if updated would increase density where it makes sense to do so and include streamlining measures that reduce building costs. San Diego has one of the highest bases of land values in the nation due to its proximity to the coast and great weather. These factors alone ensure that when new housing is built in San Diego, land acquisition as a subset of building costs will always be a major factor of market prices in the region.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{inflow_outflow.png}
\caption{Inflow and Outflow of Residents in the City of San Diego}
\end{figure}


\textsuperscript{7} Reaser, Lynn, et al. \textit{Opening San Diego’s Door to Lower Housing Costs}. Edited by Cathy L. Gallagher, Fermanian Business & Economic Institute at Point Loma Nazarene University, Jan. 2015.
The second cause of the current housing crisis is the lack of new supply. Demand for housing in San Diego has increased while the number of newly constructed homes have decreased. This is a textbook example of the law of supply and demand. In a market where demand is steadily increasing, supply has remained constant, resulting in a continued increase in housing prices. As long as there is a market that can afford the homes, the prices will continue to rise. As of 2017, 74% of San Diego households are unable to afford a median priced single-family home.  

San Diego must address the housing crisis with a two pronged approach. The first is to cut regulatory red tape. This will speed the process up and decrease costs. The second is to build more housing. As San Diego continues to prioritize and incentivize transit oriented and higher density infill development, some existing single-family homeowners in surrounding neighborhoods feel an urge to resist. Common fears of additional traffic, increased crime, and shared resources being stretched too thin are understandable but ultimately unfounded. The biggest fear is that new, denser development causes a decrease in existing single-family home values. For homeowners that often have their livelihood tied to their homes, experiencing a decrease in home value due to new development would be catastrophic. However studies have shown the expectation of a decrease in values is unfounded and inaccurate. In fact, research suggests that new, denser development may provide an increase in single-family home values.

**Myth: New, dense development will result in decreased property value for existing single-family homes.**

**Fact: Single-family homes near new density do not decrease in value and can become more valuable in the long-term.**

Existing single-family homeowners should encourage the development of density in and near their communities. Despite the commonly held belief to the contrary, new multi-family development can actually increase the value of existing single-family homes to the benefit of current homeowners. In the long-term, it ensures a market for the existing homeowners to potentially sell their home. Additionally, there are other significant factors that can contribute to this increase.

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In a city such as San Diego, dense development is largely infill development. San Diego is no longer rapidly spreading as it builds toward its City limits. Projects are starting to look less like suburban sprawl and more like redevelopment of the empty lot on the street corner or the replacement of an older office building. Underutilized land is often perceived negatively in the community. Subsequently, revitalization of blighted lots is alone a reason for the increase in the surrounding home values. The current infill process is replacing the overgrown and oftentimes problematic lots residents complain about with a high-quality project the community desires to live in and be associated with. It is replacing the eyesore of a rundown office building with a coffee shop and a few apartments. One of the largest contributors to a decrease in a home’s value are the characteristics of the surrounding area. By removing blight through development, a property’s value is shown to increase.

Density also contributes to an increase in property value because of the new amenities it provides. There are two main ways that a new development provides amenities. The first is through the payment of development impact fees. These fees go towards the development of parks, improved infrastructure, and other community improvements. These improvements build upon the character of the area and help increase property values. The second way a development provides amenities is through its often mixed-use nature. While new development isn’t always mixed use, the overarching trend in San Diego is towards this type of development. Mixed-use development provides desirable amenities such as coffee shops, corner stores, and other retail businesses. Depending on the location, the development may actually be replacing existing run-down retail, and the community character may benefit from a new atmosphere and increased usage.

Density near single-family homes helps strengthen single-family home prices in the long term as well. One commonly used analogy related to housing is called the “property ladder.” This concept dictates that homeowners

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start with a small house or condo and then leverage that to move up to a bigger home over time, similar to climbing rungs of a ladder.\textsuperscript{15} By developing multi-family housing around single-family homes, a microcosm of supply and demand is created. Those new homeowners will eventually have the desire and means to move up to a bigger home, creating a larger demand for the existing single-family homes and practically ensuring a harbor against a decrease of property values. These multi-family homeowners will have developed an attachment to the neighborhood and to the amenities that oftentimes their development brought.

High quality multi-family development is key to a successful neighborhood.\textsuperscript{16} It provides new amenities, a greater pool of future buyers, and oftentimes replaces blight in the neighborhood. Existing single-family homeowners should urge government and stakeholders to bring new development to their neighborhoods. It will not only potentially increase their property value in the short term, but it will help secure those values in the long-term. Examples exist throughout the country of this impact. Despite this, it is easy for homeowners to resist change, often to their own peril.

**The City of San Diego as a Case Study**

We used propriatery data provided by Marketpointe Realty Advisorys to analyze which communities had the most and least multi-family housing production over the last two decades, and compared changes in sales price over different time periods to gauge the impact of that production on existing home values.

Figure 5 shows the top six and bottom six communities for multi-family units developed between 2003 to 2009 along with the corresponding change in single-family home sale price during the height of multi-family construction.

Generally, during construction the communities with more multi-family development performed better than the communities without. This data shows that at a minimum, the development of multi-family housing did not have a negative impact on

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Figure 5. Single-family home price difference from 2003 to 2009


housing prices during the time period in which it is being constructed, which is a common myth touted by homeowners resistant to development in their neighborhood.

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Figure 7 looks at the data from a longer term prospective, analyzing the change in price from before the multi-family housing construction boom to the most recent available sales data. Some communities with a large amount of multi-family development performed better than the average and some did not. The same was true of communities with no development.

While this is just a sampling of development throughout the City of San Diego, the data suggests that multi-family development does not have the negative impact that many people fear that it will to their property values and may actually help home values. The following provides some examples of multi-family development in San Diego that have made those top six communities successful.

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Figure 7. Single-family home price difference from 2000 to 2016
North Park Case Study
In 2014, a 27-unit multi-family complex opened on the corner of Upas and 30th Street in North Park. This complex included retail on the ground floor in the format of three small restaurants, a brewery, and a coffee shop. The project replaced an underutilized and blighted furniture store, amongst other struggling retail businesses. This particular project is surrounded by single-family homes. This is only one of many multi-family projects that have been developed recently in North Park. In fact, the neighborhood of North Park has supplied the largest amount of multi-family development outside of Downtown San Diego when it comes to communities that are contributing predominately to infill. This particular project is a great example of the power of infill development. It has contributed needed housing stock while also replacing a community eyesore with a project at which the community now spends a significant amount of time.

University City Case Study
Looking further back, in 2006 a large multi-family property was developed in University City. Soon after, the economy and the housing market collapsed. The average citywide depreciation from roughly the peak in 2006 to the valley in 2012 was 25.4%. The neighborhood surrounding this development depreciated at a lower rate than the City as a whole. It only experienced a decline of 17.3%. As noted earlier, the community of University City had the second most for-sale multi-family properties developed in the time period of 2003 to 2009. The continued success of that community post-recession and its ability to weather the recession suggests the importance of a variety of housing stock in an area. The project is within walking distance of restaurants, grocery stores, and hotels. It is not immediately surrounded by single-family homes. That did not stop many single-family homeowners from opposing its development. Despite their fears, this development and others like it did not have a negative impact on the single-family home prices of the community.

These are just two examples of many that exist throughout the City, and San Diego is not alone in experiencing the positive impact of multi-family development; examples are abundant in economically prosperous communities in Silicon Valley, Orange County, Sacramento, and the Bay Area. It does not matter whether the development is directly across the street or down the road, multi-family projects do not have a negative impact on single-family home prices. In fact, as
shown in Figures 5-7, having no development is a greater indicator of a slower growth in single-family home prices.

**Myth: New, dense development will increase crime in the surrounding neighborhood**

**Fact: Crime rates around single-family homes and multi-family homes are not substantially different**

Density in neighborhoods is often perceived to be accompanied by higher crime rates. Dense development, whether it is rowhomes or apartment complexes, provide a variety of unique reasons for actually helping contribute to a lower crime rate. Multi-family complexes can help contribute to a lower crime rate due to the fact that they are dense. This is counter-intuitive to the myth that most people believe. The density of multi-family complexes is actually an asset. Oscar Newman famously termed the concept of defensible space. Defensible space is achieved both through “target hardening,” design features that repel criminal activity such as fences, gates, and locks, and through design elements that encourage residents to assert control over their public spaces and neighborhood environments. Modern day multi-family design takes into account this research in the architectural development of the project. The correct usage of design results in a concept of “eyes on the street,” which helps deter crime.

As a result of the quantity of units on one site, a complex typically has both a maintenance worker and property manager on site at all times. These individuals are a useful deterrent from crime. Also, due to the relative proximity of the units to each other, neighbors likely know each other. Single-family neighborhoods create neighborhood watches to assist in their deterrent of crime. Multi-family complexes have this organically built in because residents tend to know and recognize their neighbors. Their neighbors

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may work different shifts and so there may constantly be residents in the community garage, which deters theft. The nature of density in multi-family complexes actually helps deter crime.

There are several studies that have shown this fact. A study completed in Arizona showed that multi-family complexes actually have a reduced demand for police services. In Phoenix, the demand for police services was more than double for single-family homes versus apartment and condominium complexes. Meanwhile, in Tempe less than 25% of calls for service came from multi-family complexes. A 2013 University of California Los Angeles review of literature found that subsidized multi-family projects have little to no impact on crime to the surrounding neighborhood.

It is clear to see why the research has shown that a multi-family complex does not result in increased crime. The nature of multi-family developments, especially the trend in recent years, is a large contributing factor to the lower request in calls for police service compared to a single-family home neighborhood.

Myth: New, dense development will increase traffic congestion throughout the region.

Fact: High-density developments generate less traffic than single-family developments of the same scope.

Other than property value impact, the impact of a multi-family development on traffic congestion is one of the biggest concerns for residents. Once again, the numbers do not support the myth. In fact, similar to the concern about crime, the nature of multi-family development lends support to the conclusions shown by the data.

Multi-family development, by design, is less impactful than single-family homes when it comes to traffic congestion. This is largely due to the number and type of individuals that live there. For example, a standard single-family home is likely to have a family of four living in it. Meanwhile, a unit in a multi-family complex will most likely contain one or two individuals. In a simplified

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world, that means between two and four units in a multi-family development would have the same traffic impact as only one single-family home. But if the theoretical situation is extrapolated further, there is a life-stage difference between those who live in multi-family homes versus single-family homes. Residents of multi-family complexes are typically single or newly married, while those living in single-family homes are more likely to have kids. Families typically take more trips for recreational and social reasons due to their kids. 23 As a result, the impact on traffic congestion is significantly greater from the development of one single-family home versus a few multi-family units.

In San Diego, the priority for multi-family development is in what are called transit priority areas. Transit priority areas mean that a major transit stop is within a half mile or ten minute walk. 24 Research has shown that use of public transit increases the closer to main priority public transit lines the property exists. 25 As San Diego pushes to develop more projects along transit lines, the impact experienced on our freeways will be less than if the development were taking place as greenfield projects in East County or North County. Individuals that live in multi-family homes versus single-family homes take 40% less trips. 26 By prioritizing and developing these projects in the right areas, San Diego is able to lessen the traffic impact experienced.

Figure 12. Transit Oriented Development with housing and retail directly adjacent to a trolley stop.

Multi-family housing development produces fewer car trips because it locates a density of people in one centralized location and the retail needed to support them is developed in close proximity, minimizing the need to travel for essentials. 27 Oftentimes this retail is built into the ground floor of the project creating a multi-use development. Other times it is located close enough that residents are able to walk to it, producing what the City refers to as “walkable neighborhoods.” Because of walkability, residents in multi-family units tend to own only one car per household, contrary to the

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24 “Transit Priority Areas per SB743,” Planning Department, City of San Diego
two or more found in single-family houses. The end result is less impact on traffic congestion by multi-family developments than their single-family counterparts.

**Myth: New, dense development will ruin neighborhood character**

**Fact: Well designed and quality multi-family developments add to the character of existing communities**

The common image conjured by a concerned homeowner when thinking about density is a New York City style skyscraper directly adjacent their single-family home. While unrealistic based on actual local experience, the fear of a large, tall development overshadowing one’s home or blocking one’s view is a very real concern for many people when they think about density. The expression of that fear is the residents’ argument to preserve neighborhood character. Almost ironically, some of the most iconic neighborhoods in the United States are actually higher density. For example, the brick rowhomes of Georgetown, Washington D.C. or Lombard Street in San Francisco. It is important to tackle the myth that new, dense development will ruin a neighborhood’s character.

Density and multi-family developments come in all shapes and sizes. While a skyscraper or multistory apartment complex is a style that is developed, it is not effective or useful in single-family neighborhoods. Its usefulness lies in downtowns and other dense transit corridors. Density and multi-family developments take on other forms in neighborhoods that add to the character of the neighborhood, not detract from it. For example, in the Ocean Beach neighborhood of San Diego density looks like a series of bungalows. This series of 6 bungalows shown in Figure 10 are on the same size lot as two individual homes down the street. Another example of density that fits in with the character of the neighborhood is a series of rowhomes in North Park. This particular example in figure 11 is only slightly taller than the two story single-family homes on the block. Multi-family doesn’t always have to be completely separate from a single-family property. Moreover, by adding a granny flat in the backyard of single-family home, a resident can add density without disrupting the surrounding area. The different

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appearances that multi-family developments can take adds to the character of the neighborhood.

The character of a neighborhood can be altered for the better by multi-family development through the quality of the development and the features those developments bring. The quality of a development is indicative of the involvement of the community.29 Residents in every community have a desire and opinion on how to improve their community. It may be through adding a park down the street. It could be having a coffee shop that is within walking distance. It could even be as simple as wanting the neighbor down the street to put a fresh coat of paint on their house. No matter the scope, each resident wants to improve their neighborhood for the better. As a result, it is important for the community to work with a developer to incorporate those desires. The community of Ocean Beach may prefer bungalows over a rowhome. A neighborhood in Mira Mesa may be open to an extra floor if there is a beer tasting room and coffee shop on the bottom floor instead. The quality of the development and the features it brings can help improve the character of the surrounding neighborhood.

Conclusion

As we have seen, there are numerous myths that exist about the negative impact of multi-family development on the surrounding neighborhoods. Those myths range from quantitative concerns such as decreased property value, to subjective opinions regarding community character. The research shows those myths are just that, myths. The truth is often the exact opposite. It is important for San Diego to recognize these often-accepted facts as myths as it embarks on its development of more multi-family housing in order to meet our housing production goals and tackle the housing affordability crisis.

There are communities throughout San Diego that have already started to see the results of multi-family development. North Park experienced a dramatic revitalization in the last 10 years. In the early 2000’s, it was considered a dangerous neighborhood and was not a very desirable place to live. It was recently named in Time’s Top 100 Hippest Neighborhoods in the United States. This successful transformation partially lies in the redevelopment of blighted areas. Other communities, such as University City, have experienced further multi-family development alongside existing pockets of single-family homes and other multi-family projects. The mix of housing in this community helped home values weather the economic downturn in the late-2000’s.

The type of density is as important, if not more important, as the amount of density. The project needs to fit with the character of the neighborhood and the needs of the area. This will look different throughout San Diego. In some areas this may mean granny flats, while others will have multi-story development along a trolley line. It is essential that arguments based on old myths do not serve to impede the construction of multi-family housing in San Diego.

Work Cited


Reaser, Lynn, et al. *Opening San Diego’s Door to Lower Housing Costs*. Edited by Cathy L. Gallagher, Fermanian Business & Economic Institute at Point Loma Nazarene University, Jan. 2015.


“Transit Priority Areas per SB743.” *Planning Department, City of San Diego*.


Methodology

Three separate data sets were utilized in the creation of the information provided in the *Examples in the City of San Diego* section. The first data set utilized was provided online through Zillow’s Data portal. The data portal provides sale price information beginning in 1996 of each community in San Diego, as defined by Zillow’s mapping, and the City of San Diego as a whole. The data set utilized is identified as *ZHVI Single-Family Home Time Series*. This data set only includes the sales of single-family homes. It was used to determine the effect of multi-family development on only single-family home sale prices. The data provided is broken down into monthly sale prices. For the comparison, we combined all 12 months of sales data to get the average annual price.

The second data set utilized was provided by the County Assessor’s Office. The data set provided all sales of residential property in the City of San Diego beginning in 2000. This data provided addresses and was sortable by type of home and zip code. This data was utilized to verify the information provided by Zillow and supplement the calculation of price difference.

The final data set was provided by Marketpointe. The data set provided the sale number of new multi-family units each year. This data set was utilized to determine which communities experienced the most growth in multi-family development. It is important to note the limitations of the data set though. It did not include the number of units that were built for rent. Unfortunately, there is no way to accurately track that information. The City of San Diego does not retain a database with certificates of occupancy given to apartment buildings.

Lastly, when calculating the growth percentage from 2006 to 2016 in each community, inflation was not taken into account. Raw sale price data was used and not adjusted for inflation. The purpose of the community comparison was to determine single-family home sale price growth in communities with high multi-family growth versus low to no multi-family growth. As a result, because inflation would have affected all communities equally and the final information was a growth percentage, it was determined that the data did not need to be adjusted for inflation. If we had provided average sale price information, the data would have been adjusted.