THE LONDON GROUP
Realty Advisors

A London Group Realty Advisors White Paper

Facts & Implications of Not Meeting Regional Housing Demand

Introduction

The purpose of this report is to examine the projected housing needs of the San Diego Region[1] and to stress-test whether existing plans and zoning established by each of the incorporated cities and the unincorporated County of San Diego provide sufficient and appropriate housing counts to accommodate future demand.

This report is the first in a planned series of white papers by The London Group Realty Advisors which will address housing demand throughout the San Diego region, issues relating to accommodating that demand and policy solutions.

We have determined that the incorporated cities will be hard pressed to accommodate their share of housing demand that is presumed by them in the SANDAG Series 13 forecast. Opportunities to accommodate additional housing units do exist in unincorporated San Diego County. It is mostly undeveloped, while the cities must accommodate development through infill and increased density. The County, on the other hand, has the ability and the land available to accommodate development, certainly a greater share than in the past, and in a manner which is consistent with state law which requires reductions of greenhouse gases, water, energy and vehicle miles traveled.[2]

This paper has been written to inform a new chapter which is unfolding to attempt to accommodate San Diego's housing needs. These are needs which must be broadly met by providing housing for multiple segments of consumer demand, both in the cities as well as in the unincorporated areas.

Our region's current trajectory is not adequate with respect to building either multifamily or single family homes. We are failing to develop the number of units projected to be needed by 2020 in the SANDAG Series 13 forecast. According to the forecast, 3,574 single family and 7,138 multifamily

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[1] San Diego is a single county "Region". All references in this report to the Region means the entire county, both incorporated and unincorporated. References to the "County" refer to the unincorporated jurisdiction.

[2] California State Bills have been passed in recent years that are designed to protect the environment and shape the way in which we now plan for future growth. Assembly Bill 32 calls for a reduction in greenhouse gas emissions and Senate Bill 375, known as the Sustainable Communities and Climate Protection Act of 2008, establishes targets for reduction. These are reflected in the latest SANDAG Series 13 forecast, which incorporate the General Plans of local municipalities that reflect CEQA, as well as these state mandates.

units need to be added each year between 2012 and 2020. However, housing permit data from the Census Bureau demonstrates that single family permits averaged 2,272 per year with multifamily permits achieving 3,153 units per year in the post-housing bubble economy[3]. This corresponds to 64% and 44% of the required annual growth, respectively.

Our region's substantial housing shortage is only getting worse. While the SANDAG projections reflect what San Diego's cities expect they can accommodate through their various General Plans, our recent experience "on the ground" suggests that when projects are proposed they tend to get scaled back. In other words, while conceptually the region may be planning for long term growth, in practice policy makers often are hard pressed to approve projects or upgrade plans.

Currently, we are aware of six master planned projects which are working their way through the planning and entitlement process throughout the unincorporated areas of the County, both inside and outside of the designated "Village" areas identified in the County's General Plan.

The County's General Plan guidelines sets a "high bar" for any new development, whether inside, next to, or away from these designated Villages. These new developments are required to implement the General Plan by proposing well planned, environmentally sensitive mixed-use communities that must meet the General Plan Vision, Guiding Principles, Goals and Policies.

Some people ask why the housing projections need to be met in the first place. The reason is at least two-fold:

1) The San Diego Region is not growing the same way now, nor will it in the future, as it did for most of the last half of the 20th Century. SANDAG has determined that the region will mostly grow through natural increase[4] (24,083 in 2014)[5], the inexorable increase in population due to more births than deaths.

2) In contrast, the region will expect less demand from net in-migration. But it will still be substantial due mostly to our economic strength and stability (11,445 in 2014)[6].

If we eliminate the opportunity for appropriate housing to be built that fulfills the needs and preferences of housing consumers, then our region will not likely be able to keep pace or economically prosper. Neither of these outcomes are good, and we can avoid both. This is no small point: failure to accommodate growth can result in profound economic impacts because the region would not be able to grow, or even sustain, its employment base.[7]

There are many examples of regions which have lost their economic base. These regions face a downward spiral of job loss, business exodus, property devaluation, loss of tax dollars, decaying infrastructure, declining services and increased social stress that translate into pressure on the

[3] The 'post-housing-bubble' is defined as starting in 2008 when a substantial drop off in permits is apparent.
[4] http://www.sandag.org/index.asp?classid=12&subclassid=84&projectid=503&fuseaction=projects.detail
[5] Source: CA Department of Finance, E-2 report on components of population change.
[6] Ibid.
[7] SANDAG's Series 13 forecast is actually its first forecast in more than two decades to tie the forecast with General Plans to conceptually produce sufficient capacity to accommodate the region's projected growth. In the past, SANDAG "exported" housing demand outside of the region.

social service delivery systems, increased crime rates, etc. It's a long way from here to there, but it can happen.

At the moment, the San Diego regional housing shortage has not reached a tipping point where shortages that arise from a failure to accommodate new housing would translate into the sort of economic stress that would cause this downward spiral. One key reason is that many San Diego employed persons elect to live outside of the County, principally in southern Riverside County, and commute to work. This has undoubtedly taken some pressure off this issue of inadequate housing supply, although this exacts an environmental cost.

Another risk is the "boutique" phenomenon. San Diego is among a handful of regions in the U.S., according to Edward Glaeser in his book Triumph of the City, which are so attractive to persons, that: "People want to live there, and when there isn't enough housing to satisfy demand, prices can soar. If the most attractive metropolises don't build more homes, they risk becoming boutique cities, depriving all but the wealthiest of their pleasures and their practical advantages."[8]

Bluntly, Glaeser writes "When places overrestrict construction, they risk stagnation and steadily rising prices."[9]

Saying "no" to growth is not an option. It is the quickest path to economic discontinuity. It is also not a preferable option to attempt, as many cities do, to dictate the *type* of growth desired. To do so would be tantamount to conducting a planning experiment which tests the hypothesis that people want to live the way that planners and policy makers want them to live.

It is wrong to prescriptively assume that all housing needs and preferences are the same. There are fundamental, alternative housing preferences that we cannot begin to predict for future populations. The better premise is to nudge future households to certain areas, say, near their jobs, or near transit stops and corridors. The better planning tool is to create a flexible framework to allow sustainable housing growth and provide the best communities to retain and attract viable, talented people to our region and our work force. This means diversifying the housing options in an attempt to serve broad preferences.

We need urban infill, but there is also a place for well-planned green field development. Millennials may be delayed in raising their families and moving to suburban places. But it is highly likely that most will eventually seek to buy a traditional single family home, and we have to be ready to accommodate this demand within suburban areas. Many Baby Boomers may "move down" from the suburbs to the City. We have to plan for them, also.

The big mistake is when a plan attempts to create and enforce monocultures, a place which can accommodate only a few classes of people. As a region, this is a matter of economic sustainability.

Research for this project was completed in October 2015. Conclusions and recommendations are strictly those of The London Group Realty Advisors. Users of this information should recognize that assumptions and projections contained in this report *will* vary from the actual experience in the market. Therefore, The London Group Realty Advisors is not responsible for the actions taken

[8] Triumph of the City, Edward Glaeser, page 178
[9] Ibid, page 180

or any limitations, financial or otherwise of property owners, investors, developers, lenders, public agencies, operators or tenants.

We wish to thank those who reviewed this white paper and offered recommendations for improvement. (see Review Contributors)

Respectfully Submitted,

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President

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Executive Summary

The following bullet points summarizes our analysis of regional growth and housing needs:

- The San Diego Region has historically been dominated by single family development. Between 1990 and 2010 the region added more than 200,000 homes. A total of 59% of those consisted of single family homes and 41% multifamily. (see Historical Growth & Composition of Housing)

- According to the SANDAG Series 13 forecast, 82% of new housing will be multifamily and only 18% single family. The assumption that future generations and future households will easily accept higher density multifamily housing as a substitute for single family homes is an experiment. It is inconsistent with current trends, consumer preferences and a vast departure in how the region has developed. The cities and the County of San Diego must find ways to accommodate single family homes in their General Plans and public policies, which has been the preferred housing type for generations. (see Forecasted Growth 2010-2050 (40 Years))

- Our region's substantial housing shortage is only getting worse as post housing bubble development (since 2008) has produced only a fraction of the housing units required. Our region's current supply trajectory is not adequate. Multifamily building permits averaged at 3,153 units since 2008, which corresponds to only 44% of the units per year anticipated by SANDAG. With respect to single family permits, the figure averaged 2,272 units since 2008, or at 64% of the units per year anticipated by SANDAG.

- Anticipating 82% multifamily development in the region is not consistent with housing preferences or needs of the next generations of households. Recent reports which profile persons of the Gen Y[10] age cohort indicate that 51% consider themselves "City People" and 49% "Suburbanites". At these ratios, building predominantly multifamily in the future is essentially accommodating only half the population (or future generation) that are City People.

- We have determined that between 2010 and 2050, the San Diego Region will experience a shortage of single family homes ranging from 43,388 to 118,602. In addition, in the North County, for every one home that is "moderately" priced in the $600,000 range, there are two homes priced over $1 million. We have created a summary table that highlights this gap (see Exhibit 9). This pricing dynamic effectively cuts the middle class out of the market and forces them to live further away from employment centers. (see Forecasted Impact to Middle Class)

- Ever changing and highly difficult "regulatory" barriers to building homes in the San Diego region will challenge our ability to provide sufficient housing to accommodate population growth. One recent study determined that regulations can add 40% to the cost of housing

[10] 2015 ULI Report: Gen Y and Housing (What they want and where they want it)

with prolonged processing time for approval.[11] This results in not being able to build housing in a timely manner, and what is built will be less affordable. In addition to government, there is significant community resistance to growth that will impact the delivery of homes. It is not likely that all of the incorporated cities will step-up and deliver the housing units as forecasted by SANDAG. Therefore, we must look to other areas that can create vibrant, walkable, mixed-use neighborhoods which cater to multiple housing types and age groups. (see Factors Affecting Housing Deliveries)

- Policy LU-1.2 of the County of San Diego General Plan rightly anticipates the changing needs and various issues associated with developing housing only in existing village designations of the unincorporated areas of the County. The policy allows for new villages in the unincorporated areas as long as they are *designed* to be consistent with the Community Development Model, provide necessary services and facilities, and are *designed* to achieve a green certification for neighborhood development. This policy is critical to sustaining housing growth in the region. This policy, which allows new sustainable mixed-use villages, is a stop-gap to prevent people from traveling to/from Temecula – where an estimated 37% of Temecula workers commute outside of Riverside County for work. (see Consistency with the General Plan)

[11] Reaser, Lynn Ph.D., "*Opening San Diego's Door to Lower Housing Costs*." Fermanian Business & Economic Institute at Point Loma Nazarene University, 2015

Historical Growth & Composition of Housing

Conclusion: The San Diego region has historically been dominated by single family development. Between 1990 and 2010 the region added more than 200,000 homes with 59% of those single family and 41% multifamily.

In this section we have documented the historical growth pattern for housing in the San Diego Region. In 1990, the San Diego Region contained 946,240 housing units and 887,719 households. The composition of this housing stock included an estimated 60% single family residences and 35% multifamily units. By 2010, the housing inventory in region increased by 211,617 units (total housing stock of 1,158,076 units). The composition of this 20-year growth (excluding mobile homes) was 59% single family and 41% multifamily (125,267 and 86,350 units, respectively).

Single family homes have consistently comprised the largest portion of housing stock. The delta between the two most prevalent housing types has consistently widened in the last 24 years. The following chart depicts the annual housing stock totals for the San Diego Region:

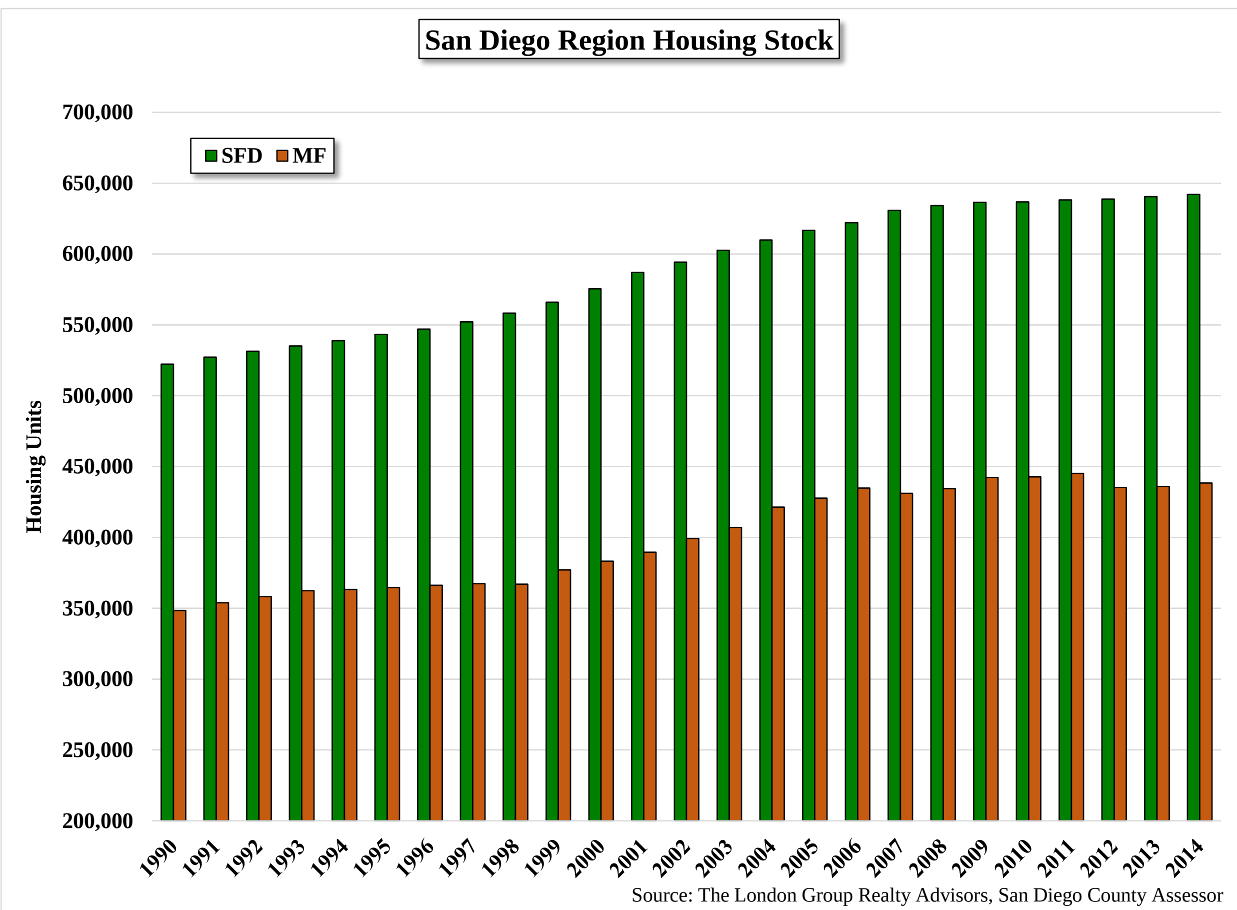

Exhibit 1

This analysis of the growth of the region's housing stock in this 20-year span indicates that 211,617 single family and multifamily units have been added. This growth was comprised of 125,267 single family homes (59%) and 86,350 multifamily units (41%). The following chart details the housing stock growth:

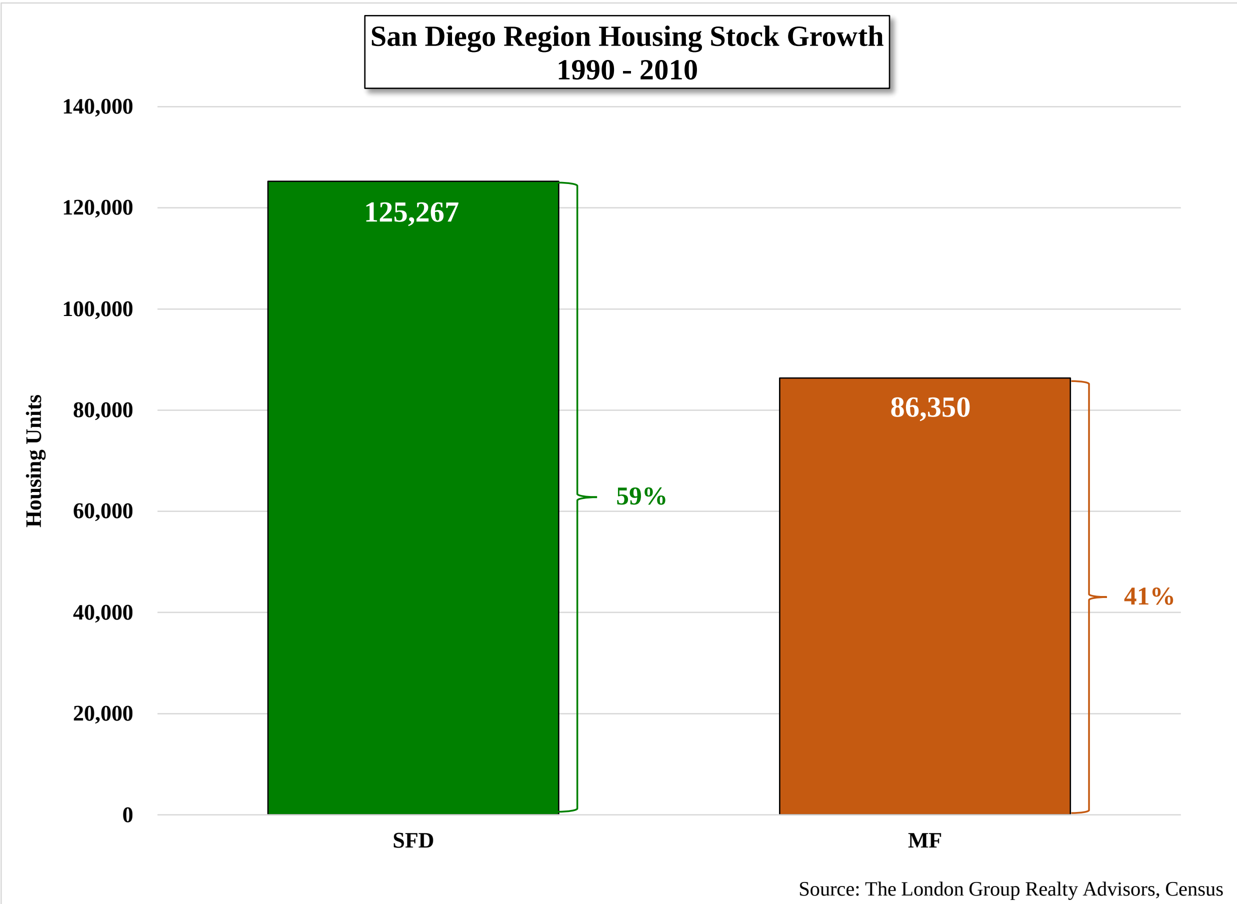

Exhibit 2

U.S. Census data indicates the composition of the housing stock in the San Diego Region remained relatively stable between 1990 and 2010. In 1990, an estimated 60.4% of the housing stock was single family homes. In 2010, single family accounted for 60.2% of the housing stock. In 1990, 35.1% of the housing stock was multifamily. By 2010, multifamily units accounted for 36.1% of housing stock, an increase of 1.0%. Mobile homes dropped from 4.5% of the housing stock to 3.7% in 2010. The following chart details the composition of the housing stock in the region in 1990, 2000 and 2010:

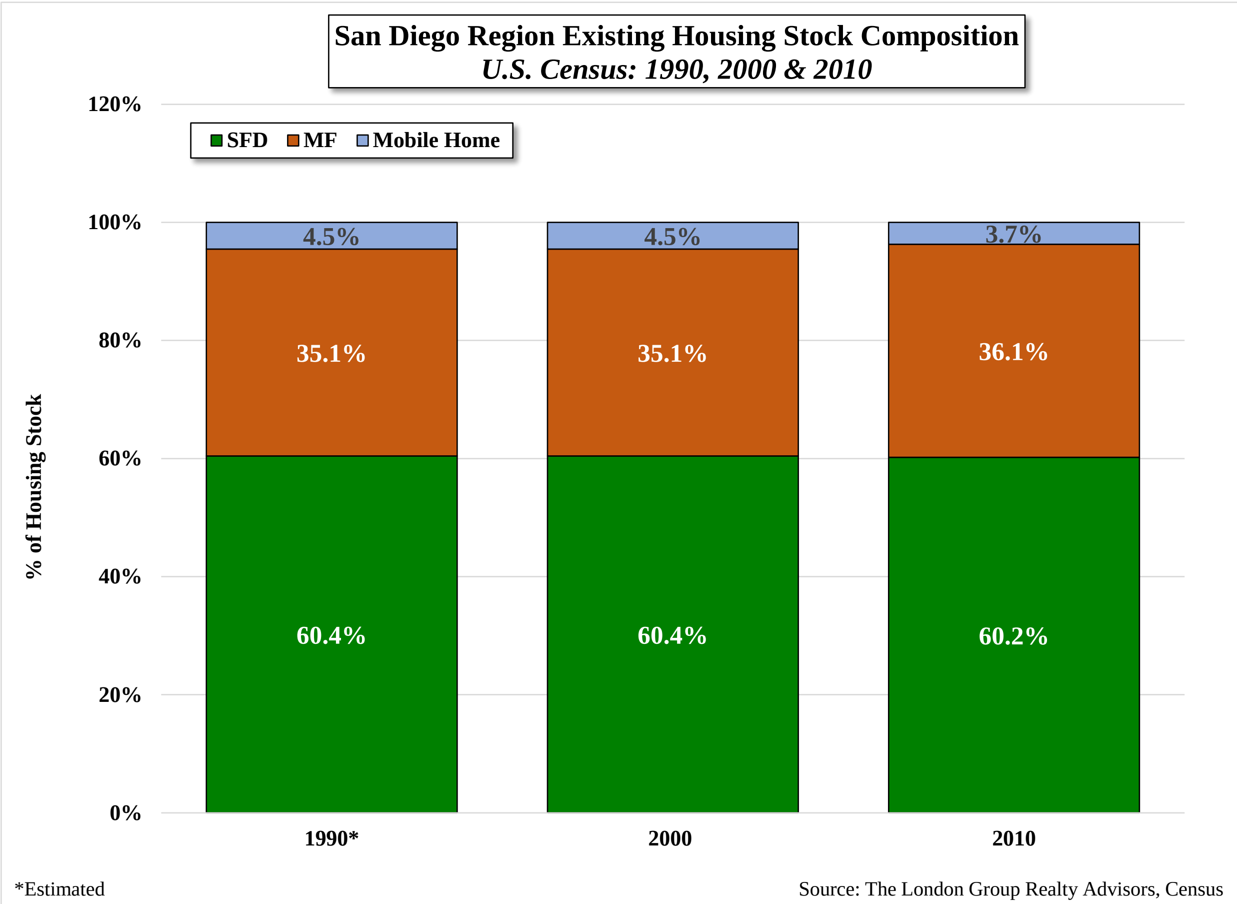
San Diego Region Existing Housing Stock Composition
U.S. Census: 1990, 2000 & 2010
SFD
MF
Mobile Home
120%
100%
80%
60%
40%
20%
0%
% of Housing Stock
4.5%
35.1%
60.4%
4.5%
35.1%
60.4%
3.7%
36.1%
60.2%
1990*
2000
2010
*Estimated
Source: The London Group Realty Advisors, Census

Exhibit 3

Forecasted Growth 2010-2050 (40 Years)

Conclusion: Historically, the Region has developed at the ratio of 60% single family and 36% multifamily. According to the SANDAG Series 13 forecast, 82% of new housing stock will be multifamily and only 18% single family. The assumption that future generations and future households will easily accept higher density multifamily housing as a substitute for single family homes is an experiment. There is no guarantee. Jurisdictions within the San Diego region must find ways to accommodate single family homes, the preferred housing type for generations and for key market segments.

The purpose of this section is to detail how the San Diego region is forecasted to grow through 2050. We have utilized the 2010 U.S. Census as well as the SANDAG Series 13 forecast to demonstrate projected housing numbers. As shown in the following table, the 2010 U.S. Census estimated a total of 1,158,076 housing units in the San Diego Region. Approximately 60% (697,162 units) were single family homes compared to 36% (418,065 units) multifamily. A total of 170,608 units were counted in the Unincorporated Area, which has a higher concentration of single family residences at 77% compared to 16% multifamily.

2010 Existing Housing Inventory	Single Family	Multifamily	Mobile Home
Unincorporated Area	131,539	26,785	12,284
	77%	16%	7%
SD Region	697,162	418,065	42,849
	60%	36%	4%

Source: The London Group Realty Advisors, SANDAG

Exhibit 4

The Series 13 SANDAG forecast anticipates a fundamental shift in the type of housing that will be offered in the region. As shown in the following table, a total of 333,859 units are anticipated to be added during the 40-year period from 2010 to 2050. Of this amount, 82% (273,522 units) will be multifamily compared to only 18% single family homes.

Composition of Housing Unit Growth (2010-2050)

	Historical Growth	Forecasted Growth (2010-2050)				
			Single Family		Multifamily	
	1990-2010	Units	Units	%	Units	%
Unincorporated	33,508	52,282	44,299	85%	7,983	15%
SD Region	211,836	333,859	60,337	18%	273,522	82%

Source: The London Group Realty Advisors, SANDAG

Exhibit 5

It is important to recognize that this forecasted growth is a tremendous challenge for the region. In essence, it is a housing "experiment" that is dictated by a transportation plan. This forecast is not necessarily based on consumer preferences for housing types. Instead, the assumption is that future generations and future households will easily accept higher density multifamily housing as a substitute for single family homes.

While course corrections in the type of housing that is delivered are necessary, it is nevertheless an extraordinary assumption since single family homes have historically represented the preponderance of additions to the housing stock. To plan for a radical change in the delivery of new housing stock by not identifying new suburban communities, particularly in the northern part of the Unincorporated County, may only accelerate the "Temecula" effect: the development of single family homes, which can be delivered in contiguous southwest Riverside County at considerably lower home prices, targeted to families whose head of household commutes to a San Diego County workplace.

In fact, according to the 2014 American Community Survey by the U.S. Census, 37% of the working population in Temecula travel outside of Riverside County for work (mainly San Diego and Orange Counties). Any new village opportunities that can offer the housing types preferred in Temecula (e.g. affordable single family home options) will reduce this phenomenon and reduce vehicle miles traveled for households. One major target to cure this problem, and the resulting negative environmental externalities, would be to choose locations along regional transportation corridors, such as the I-15 corridor, which is an international trade route between Mexico and Canada.

Forecasted Impact to Middle Class

Conclusion: Anticipating 82% multifamily development in the region is not consistent with housing preferences or needs of the next generations of households. Recent reports on Gen Y[12] indicate that 51% consider themselves City People and 49% Suburbanites. At these ratios, building predominantly multifamily in the future will only accommodate the housing needs of half of the population.

Based on our analysis, we have determined that the San Diego Region could experience a shortage of single family homes ranging from 43,388 to 118,602. In addition, in the North County, for every one home that is "moderately" priced in the $600,000 range, there are two homes priced over $1 million. This dynamic is effectively pricing the middle class out of the market and forcing them to live further away from employment centers.

This section analyzes the anticipated demand for housing types of future generations. Extensive research has been conducted in recent years pertaining to the 78.6-million-person Gen Y population. This cohort is now 20 to 37 years old and is larger than the Baby Boom generation. It is important to note that Gen Next (sometimes referred to as or Gen Z, persons under 20 years of age) is next up in generating housing demand as strong as their predecessor groups. As such, strong housing demand is anticipated for at least two generations.

Several years ago development was focused on smaller units, usually in multifamily settings, because it was believed that Gen Yers wanted smaller, more urban product. However, current research shows that the housing propensities for Gen Y are changing, just as it has for the generations before it.

In a 2015 presentation at the International Builders Show, the National Association of Home Builders[13] indicated that 75 % of Gen Y, who are mostly first-time buyers, want to purchase a single family home. They also prefer (66%) to live in the suburbs.

According to the recently published study on Gen Y by the Urban Land Institute ("ULI")[14], approximately 51% of Gen Y consider themselves City People and 49% consider themselves Suburbanites.[15] In addition, approximately 70% of Gen Y expects to be homeowners over the next five years (by 2020). This generation is the single largest source of new housing demand and first time homebuyers.

The table on the following page details the composition of housing required to accommodate this population. The table assumes that 100% of City People live in multifamily units. Suburbanites are assumed to live in the same ratio of single family/multifamily that has been demanded historically (63% single family versus 37% multi family). Based on this housing type preference, there is an oversupply of 43,388 multifamily units planned in the San Diego region. Correspondingly, there is a shortage of single family homes demand of an equal amount.

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[12] 2015 ULI Report: Gen Y and Housing (What they want and where they want it)
[13] Home Trends & Millennials' Home Preferences. Rose Quint. January 2015
[14] 2015 ULI Report: Gen Y and Housing (What they want and where they want it).
[15] Excludes that portion of the population that consider themselves small town rural people.

Reconciliation of Future Generations Housing Expectations
San Diego Region
Scenario 1: MF Growth is Dispersed Throughout Region

SUPPLY	
	2010-2050 Growth
Multifamily	273,522
SFR	60,337
Total Units	**333,859**

DEMAND			
Gen Y Housing Preferences			
City People	51%	100% MF	**169,216**
Suburbanites	49%	*63% SFR*	*103,725*
		37% MF	*60,918*
			164,643
Total Units			**333,859**

Multifamily Reconciliation	
Future Supply	273,522
Future Demand	230,134
Oversupply:	**43,388**

Single Family Reconciliation	
Future Supply	60,337
Future Demand	103,725
Shortage	**(43,388)**

Source: The London Group Realty Advisors, U.S. Census, ULI, SANDAG

Exhibit 6

The ULI study also points out that the portion of the population that are City People, approximately 75% live in central-city neighborhoods outside of downtowns. Specific to San Diego, this is largely represented by District 3, which includes downtown and the urban ring that has been redeveloping in recent years (e.g. Hillcrest, North Park, South Park, Golden Hill, etc.).

This statistic of living in central-city neighborhoods is not surprising. As evidenced in the communities surrounding downtown, these communities are quite vibrant with restaurants, shops and walkable communities. Gentrification has also taken place as a younger, and more affluent demographic segment has brought higher incomes and expenditures to these neighborhoods. This is consistent with the phenomenon in the urban rings that surround other downtown areas throughout the nation.

We have prepared a second scenario that adjusts for “where” the Gen Y City People choose to live. SANDAG predicts that 273,522 multifamily units will be added to the region during the 2010-2050 period. In addition, there are 49,829 multifamily units planned for District 3. This means that the balance of multifamily (223,693 units) will be dispersed throughout the county in otherwise more suburban areas.

However, based on our research only 105,091 multifamily units would be demanded outside of District 3. This suggests that there is an oversupply of 118,602 multifamily units in the region. Conversely, the shortage for single family home demand is an equal amount.

The table on the following page details our analysis.

Reconciliation of Future Generations Housing Expectations
San Diego Region
Scenario 2: MF Growth Focused on Central-City

SUPPLY			
			2010-2050 Growth
Multifamily			273,522
SFR			60,337
Total Units			**333,859**

DEMAND			
Gen Y Housing Preferences			
City People	51%	100% MF	**49,829**
Suburbanites	49%	*63% SFR*	*178,939*
		37% MF	*105,091*
			284,030
Total Units			**333,859**

Multifamily Reconciliation	
Future Supply	
District 3	49,829
Balance of County (37%)	223,693
Total Supply	273,522
Future Demand	
District 3	49,829
Balance of County (37%)	105,091
Total Demand	154,920
Oversupply:	**118,602**

Single Family Reconciliation	
Future Supply	60,337
Future Demand	178,939
Shortage	**(118,602)**

Source: The London Group Realty Advisors, U.S. Census, ULI, SANDAG

Exhibit 7

The following graph recalls the conclusions of our analysis of future growth based on consumer preference. To dismiss this perspective on the housing market is to deny the current research on the younger generations as well as ignore the housing preferences of the past. It is not prudent to just assume that the future residents of the San Diego region will accept a high density multifamily unit as a replacement for a single family home. By building predominantly multifamily, we are essentially stating that we are willing to accommodate optimal housing preferences for half the population.

To assume a higher proportion of multifamily development is a gamble. Moreover, building high density along transit corridors cannot be the only option. If the region does not identify additional neighborhoods, or villages, that can provide a new type of single family dwelling, then there are economic consequences that will ripple through the economy. We must find a way to provide all types of housing in order to attract the most diversified employment base. Singling out product types, or making them extinct, would raise the specter of economic failure.

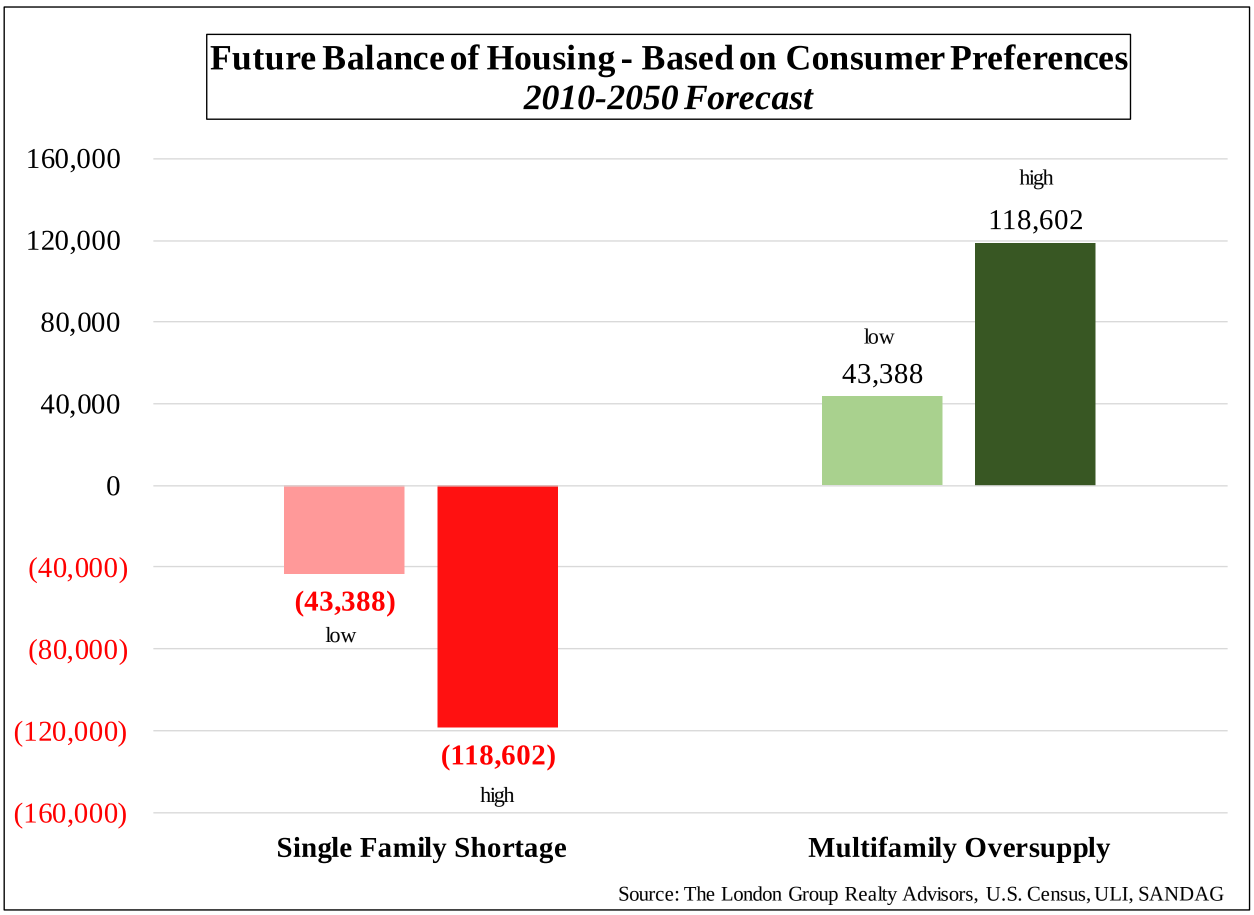
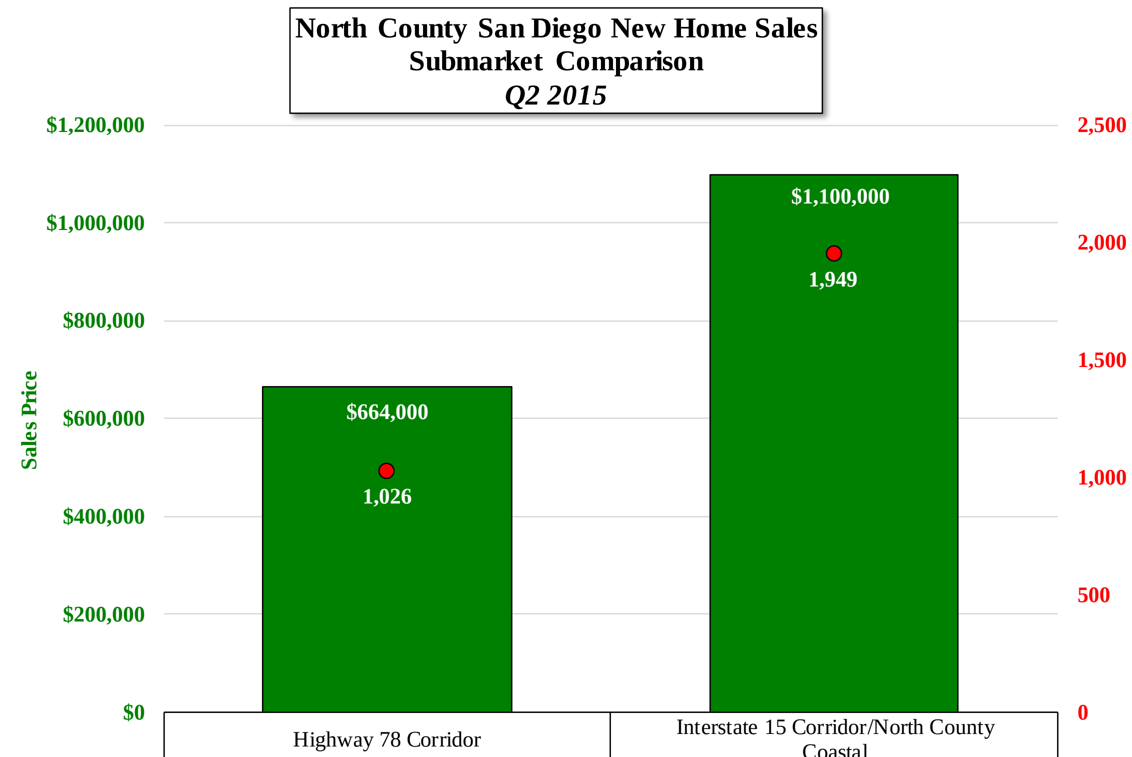


Exhibit 8

The resulting effect of not building an adequate number of single family homes is that this type of housing becomes more expensive. And for those households who desire this housing type, they will either have to spend more or live further away where prices are more affordable.

Already, North County San Diego is experiencing a push further away from its employment cores (e.g. Poway, Carlsbad, etc.). North County is generally comprised of three submarkets: Highway 78 Corridor, Interstate 15 Corridor and North County Coastal. The following table details the current supply of single family homes in this area of the County.



	Highway 78 Corridor	Interstate 15 Corridor/North County Coastal
Avg. Sales Price	$664,000	$1,100,000
Number of Projects	16	34
Total Units	1,026	1,949

Source: The London Group Realty Advisors, MarketPointe

Exhibit 9

There are currently 50 projects selling single family homes. A total of 34 projects are located in the more expensive I-15 Corridor and North County Coastal areas. There are 1,949 homes in these submarkets with an average price of $1.1 million. However, the Highway 78 Corridor includes only 16 projects (1,026 homes) with an average price of $664,000. In short, for every one home that is "moderately" priced in the $600,000 range, there are two homes priced over $1 million. This dynamic is effectively pricing the middle class out of the market and forcing them to live further away from employment centers.

Factors Affecting Housing Deliveries

Conclusion: Ever changing and highly difficult "regulatory" barriers to building homes in the San Diego region will challenge our ability to provide enough housing to accommodate population growth. One recent local study determined that regulations can add 40% to the cost of housing with prolonged processing time for approval.[16] This results in not being able to build housing fast enough, and what is built will be expensive. In addition to government, there is significant community resistance to growth that will impact the delivery of homes. It is not likely that all of the incorporated cities will step-up and deliver the housing units as forecasted by SANDAG. Therefore, we must look to other areas that can create new vibrant neighborhoods that cater to multiple housing types and preferences.

The cost of housing in the San Diego Region starts with the high cost of land available for development. Often called the "San Diego tax", there are inherent benefits to living and working in San Diego. All of them are reflected in land and ultimately housing cost. That said, the high cost of housing in San Diego County is exasperated by the costs of development.

There are many studies which address the impacts of regulation on the costs of housing. All conclude that the costs are significant, although levels vary depending upon jurisdiction, the extent of the regulations and other factors relating to uncertainty and time.[17]

Not all of these costs are essential. The following bullet points outline a 2015 study by the Fermanian Business & Economic Institute at Point Loma Nazarene University titled, "*Opening San Diego's Door to Lower Housing Costs*." This study sought to analyze the portions of the regulatory process that inflate housing prices with little or no benefit to the community.

- The total cost of regulation amounts to about 40% of the cost of housing across the various price segments in all of the San Diego Region.

- Regulatory costs vary considerably by jurisdiction across the region. Based on the weighted average of sales and rentals, the costs range from about $125,000 (22%) in Santee to about $282,000 (44%) in Carlsbad.

- The time involved in what is often a prolonged and complicated process represents a major cost driver and can add 15% or more to the price of a new house. Projects where a master plan is not already in place can require 12 or more years before the first house is ready for sale.

- This study indicates that approximately 21% of, or about 233,000, households throughout the San Diego Region are priced out of the market for owned or rented housing based on their current incomes. These individuals may have other assets they can use or may be able to secure financial assistance from family or friends. They may find options in the stock of

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[16] Reaser, Lynn Ph.D., "*Opening San Diego's Door to Lower Housing Costs*." Fermanian Business & Economic Institute at Point Loma Nazarene University, 2015

[17] See Relevant Housing Market Studies

existing housing, although new home prices will probably have an impact on that part of the market as well. If those options are not available, they may be forced to share housing with others in the region or find housing outside the area.

- A relatively modest 3% reduction in the regulatory cost of San Diego's housing could open up housing alternatives to approximately 6,750 additional households in one year.

- The economic benefits of the resulting increase in homebuilding would be substantial. After including all of the ripple or multiplier effects, San Diego could realize a $3.1 billion gain in its gross regional product (GRP) and a $2.5 billion gain in its total personal income. An additional 37,000 jobs could be created.

- Regulatory reforms that could preserve public objectives, but at much lower cost, include: establishing benchmarks for project and permit approval times, replacing full cost recovery by a flat fee for mapping costs, standardizing building codes for all jurisdictions in the Region, disallowing additional challenges and reviews once a project is approved, and establishing a sliding scale for affordable homebuilding requirements to recognize the importance of economies of scale.

In addition to these regulatory costs, there are other high barriers to entry in terms of developing housing. Most notably is NIMBYism. Throughout the incorporated areas and cities, existing residents are becoming increasingly against development – particularly densities that are achieved in multifamily development. This dynamic will not go way, and as a result local politicians will likely succumb to voting pressure in favor of existing residents.

This will put a significant dent in the housing forecast numbers required to accommodate growth. Projects are delayed or sent to referendum, which ultimately results in a smaller scale project (or no project) that hurts the regional housing supply.

It is not likely that all of the incorporated cities will step-up and deliver the housing units as forecasted by SANDAG. Therefore, we must look to other areas that can create new vibrant neighborhoods that caters to multiple housing types and preferences. These are the opportunities that will keep San Diego's economy growing because housing units could be added in greater quantities.

Consistency with the General Plan

Conclusion: Policy LU-1.2 of the County of San Diego General Plan rightly anticipates the changing needs and various issues associated with developing housing only in existing village designations of the unincorporated areas of the County. The policy allows for new villages in the unincorporated areas as long as they are designed to be consistent with the Community Development Model, provide necessary services and facilities, and are designed to achieve a green certification for neighborhood development. This policy is critical to sustaining housing growth in the region. This policy, which allows new sustainable mixed-use villages, is a stop-gap to discourage people from traveling to/from Temecula – where an estimated 37% of Temecula workers commute outside of Riverside County for work.

We must plan communities for the future, not the past. It requires flexibility as technology and culture will outpace regulation. So the key is not to so proscriptively regulate as to delay or supersede the opportunities of innovation. This is why formed based design, rather than specific zoning, ought to be the cure to new community development.

By design, the General Plan does not assign specific zoning to parcels in the unincorporated areas of the County. Rather, planning and guidelines is essentially a form based code that allows for development as long as it is consistent with the Vision, Guiding Principles, and the Goals and Policies in the General Plan.

In addition, the General Plan was designed to respond to changing conditions, including legislation and environmental factors. The County included a statement that explicitly anticipates and allows for amendments:

> *The General Plan is intended to be a dynamic document and must be periodically updated to respond to changing community needs.* (General Plan, Page 23)

The Community Development Model in the General Plan[18] defines three regional categories: Village, Semi-Rural and Rural Lands. The goals and policies under this model are "intended to apply across the entire unincorporated County and are the basis for assigning densities to these areas."[19] The plan also recognizes "the need for community-specific planning and guidance."[20]

Policy LU-1.2, called Leapfrog Development, prohibits development that is inconsistent with the Community Development Model. Leapfrog refers to development of village densities located away from existing villages. However, this restriction does not apply to new communities created that are "designed to be consistent with the Community Development Model, provide necessary services and facilities, and are designed to achieve a green certification for neighborhood development."

The six projects[21] that we are tracking can be accommodated under the new General Plan Goals and Policies for sustainable communities. These communities are planned to be consistent with

[18] Page 3-23 of the General Plan
[19] Ibid.
[20] Ibid.
[21] See Appendix

the General Plan guidelines for densities, sustainability and family-oriented housing communities. But more importantly, it is an opportunity for the County to accommodate new village communities that are strategically located along the I-15 corridor, SR-78 and SR-125, which will result in a significant reduction in greenhouse gases (GHG) and vehicle miles traveled by residents who would otherwise liver further away in the more rural backcountries or opt to live in Temecula where single family homes are relatively more affordable.

The implementation of the Guiding Principles and the Goals and Policies is critical to sustaining housing growth in the region. In particular, policy LU-1.2, which allows conforming development of new villages in the County, is a stop-gap to discourage people from traveling to/from Temecula – where an estimated 37% of Temecula workers commute outside of Riverside County for work.

While the General Plan has identified designated village areas (e.g. Bonsall, Ramona, Fallbrook, Julian, etc.), many of these areas are inconveniently located. They are remote, and have limited access to employment, retail and other services.

As such, residents will still require access to the greater San Diego region for employment. Given the constraints of housing and a perpetual housing shortage, this means that more people will live in the unincorporated areas. This is where more affordable homes can be found and residents will be forced to commute – resulting in higher vehicle miles traveled.

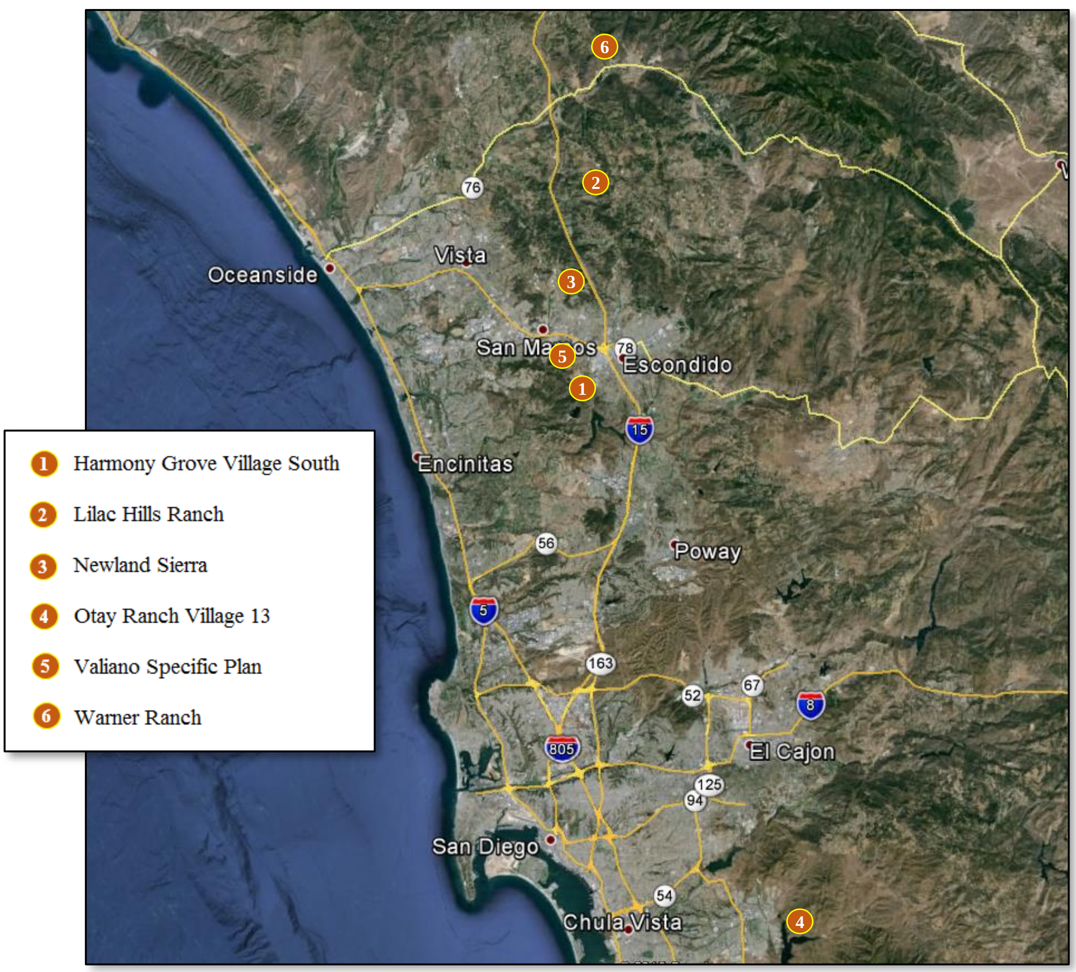
Policy LU-1.2 rightly anticipates these issues associated with the remote existing villages and allows for new villages in the unincorporated areas as long as they are *designed* to be consistent with the Community Development Model, provide necessary services and facilities, and are *designed* to achieve a green certification for neighborhood development. This policy is critical to sustaining housing growth in the region.

Appendix

San Diego County Residential Plans in Progress

Project	Location	Acres	Residential Units Total	SF	MF
Harmony Grove Village South	Harmony Grove Road and Country Club Drive	111	453	193	260
Lilac Hills Ranch	West Lilac Road, Rodriguez Road, Shirey Road, Standell Lane	608	1,489	1,114	375
Newland Sierra	Gopher Canyon Road, I-15, Twin Oaks Valley Road	1,985	2,135	1,367	768
Otay Ranch Village 13	North side of Lower Otay Lake	1,869	1,938	1,881	57
Valiano Specific Plan	City of San Marcos, Mt. Whitney Road, Eden Valley, Country Club Drive	238	326	326	0
Warner Ranch	Rainbow, Pala -Temecula Road, SR-76	513	780	534	246

Source: The London Group Realty Advisors, San Diego County Planning



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Review Contributors

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