Acknowledgments

Special Thanks

A special thank you goes to everyone who helped create, review, and publish this report. Dane Thompson and Alexis Ledlow, Circulate interns, conducted the research to create the dataset on which this report is based. Ann Kern and Wendy DeWitt from the San Diego Housing Commission helped us find the raw data. Elyse Lowe, the Director of the Development Services Department also helped us access the project data.

Thanks to our advisory committee, which reviewed our report at all stages and made excellent recommendations based on their deep knowledge and experience. Advisory committee members include: Sylvia Martinez, Jonathan Taylor, Justine Nielsen, Marcela Escobar-Eck, David Allen, Jim Schmid, Laura Nunn, Rachel Stevens, Nicole Capretz, Matthew Vasilakis, Sarah Krueger Jager, Roberto Alcantar, Jim Silverwood, Lori Pfeifer, Melissa Winkler, and Brian Schoenfisch.

We also thank Angelica Rocha and Connor Franklin Rey, who assisted in many ways with the development and design of this report.

Colin Parent, Author
Executive Director and General Counsel, Circulate San Diego

Colin Parent is Executive Director and General Counsel at Circulate San Diego. He has authored a number of reports and academic publications detailing how local land use and transportation policy can be improved to advance equity, promote economic development, and to address climate change.

Colin served on the Jerry Brown for Governor 2010 campaign, and was appointed by Governor Brown as the Director of External Affairs for the California Department of Housing and Community Development. Prior to working for Governor Brown, Colin practiced law for three years as a commercial litigator at DLA Piper US LLP. During 2013-2014, Colin served as the Director of Policy at the San Diego Housing Commission. He is also an elected member of the City Council of La Mesa, California.

Maya Rosas, Author
Director of Policy, Circulate San Diego

Maya Rosas serves as Circulate San Diego’s Director of Policy, where she leads Circulate’s efforts on Vision Zero, Community Planning Group reform, and other campaigns. She has worked in safe streets advocacy, land use planning, and housing in both the non-profit and private sectors in San Diego since 2012. Maya is the author or co-author of numerous reports on topics including aging in place, Vision Zero, and affordable housing opportunities. Previously, Maya worked as a land use consultant for Atlantis Group, where she helped see development projects through all phases of the entitlement process and learned how homes get built.

Maya is a leader in San Diego’s YIMBY movement, a member of the San Diego Housing Federation’s Policy Committee, and serves on the City of San Diego’s Mobility Board. She is a graduate of the San Diego State University Master in City Planning program.

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Executive Summary

The City of San Diego’s new Affordable Homes Bonus Program (AHBP) created a surge in project approvals, and is set to produce more market-rate and affordable homes.

For more than a decade, California’s Density Bonus Law has been a policy designed to offer developers a bargain—if they set aside some units as affordable, they can build more units overall. Specifically, California’s Density Bonus currently allows a residential developer to build 35 percent more units than allowed by base zoning, if the developer agrees to set-aside up to 11 percent of the base density units as permanently affordable.

Proposed by Mayor Kevin Faulconer’s administration, San Diego’s AHBP was supported by a broad coalition led by Circulate San Diego and was approved unanimously by the San Diego City Council in August 2016. The new AHBP builds on the existing California Density Bonus Law and allows for a maximum of 50 percent more bonus units, if a residential developer chooses to set-aside up to 15 percent of the base density units as affordable.
This report contains an analysis of 20 months of entitlement data under the AHBP from the City of San Diego’s Housing Commission and Development Services Department. That entitlement data was compared to 12 years of production under the City’s implementation of California Density Bonus Law.

City data shows that the new AHBP is creating substantially more homes than California Density Bonus Law alone, with annual increases for entitlements including:

- **490 percent increase for the number of projects applying to use the program**
- **551 percent increase for the number of deed-restricted affordable homes entitled**
- **356 percent increase for combined affordable and market-rate homes entitled**

The AHBP is an example of successful city-wide policymaking. San Diego should continue to monitor and expand the program to ensure its continued success.

Beyond San Diego, this report can help decisionmakers recognize the potential of enhancements to current California Density Bonus Law, to expand the bargain of trading development capacity for new affordable homes. For example, in February 2020, Assemblymember Lorena Gonzalez proposed Assembly Bill 2345, to extend San Diego’s AHBP to the rest of California. Individual jurisdictions should also consider their own enhancements, to go above and beyond what California law may offer.
Introduction

This report provides an evaluation of the City of San Diego’s Affordable Homes Bonus Program (AHBP),¹ which was adopted by the City Council in 2016,² and was supported by a coalition led by Circulate San Diego.³ The program builds on the existing California Density Bonus Law, which provides incentives for developers that set aside some of their new units as affordable for low income households.⁴

¹ Over the last few years, the San Diego Municipal Code has had several names for San Diego’s enhancements to California Density Bonus Law. Currently they are in a code section captioned as “Affordable Housing Regulations,” which is confusing in that it captures only a subset of the City’s policies related to affordable housing. This report continues Circulate’s past practice of referring to the enhancements to California Density Bonus law as the “Affordable Homes Bonus Program,” for ease of distinction.
In the few short years of the AHBP’s existence, San Diego has seen an increase of entitlements for both 100 percent affordable and mixed-income projects seeking density bonus benefits. These entitlements are substantially larger and more numerous than entitlements using the predecessor California Density Bonus. The relatively new AHBP generated a substantial market response and produced more housing for an ever-growing San Diego. The AHBP also helps affordable housing developers maximize the impact of public funding by allowing bonus units above the base density. This results in more deed-restricted affordable homes than would be produced otherwise.

San Diego’s AHBP has been recognized with awards, and is considered to be one of the most robust bonus programs in the state. San Diego has received significant praise and positive press coverage for its efforts to promote affordability through the AHBP. It can provide lessons for other local governments, and for state policy.

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5 The AHBP was awarded the 2017 Ruby Award Ruby Award for Outstanding Government Agency or Elected Official by the San Diego Housing Federation, see http://housingsandiego.org/events-training/ruby-awards/2017-ruby-award-winners.


San Diego’s AHBP builds on the baseline policy of California Density Bonus Law. State law requires that developers receive up to a 35 percent density bonus when they build up to 11 percent of their initial zoning capacity as affordable homes. San Diego’s AHBP goes beyond this and allows developers to receive a maximum of 50 percent additional capacity if they provide up to 15 percent of zoning capacity as permanently affordable homes. San Diego’s AHBP also allows developers to receive up to five “incentives,” which are concessions from local development standards. In comparison, State Density Bonus Law only provides up to three incentives.

California Government Code § 65915. Note that both California Law and San Diego’s predecessor Density Bonus Program allow the receipt of density bonus benefits at different percentages, depending on how deeply subsidized the deed-restricted units are. However, in practice most developers in San Diego choose to build Very Low Income homes, and they can receive a full 35 percent density bonus when they build only 11 percent of their units at the Very Low Income level.
In addition to the density and incentive enhancements, the AHBP implements Assembly Bill 744, which requires localities to provide parking relief for projects that incorporate affordable homes near transit. Studies show that locating affordable homes near transit creates a measurable reduction to greenhouse gas emissions. While the AHBP program applies city-wide, the parking benefits from AB 744 only apply near transit. This means that both the AHBP and California Density Bonus Law both provide enhanced benefits for transit oriented development.

In 2017, Circulate San Diego published a report, “Early Win for Affordable Homes Bonus Program,” with positive initial data on AHBP applications. This report builds on that initial publication, and uses actual entitlement data instead of application data.

9 California Assembly Bill 744 (Chau, 2015); Circulate San Diego helped draft Assembly Bill 744 and is strongly supportive of its implementation in San Diego; See Circulate San Diego, Blog Post: Governor Brown Signs AB 744, a Smart Growth Victory for California (October 12, 2015), available at http://www.circulatesd.org/governor_brown_signs_ab_744_a_smart_growth_victory_for_california.


Methodology

To evaluate the new AHBP, Circulate San Diego requested entitlement data from the City of San Diego and the San Diego Housing Commission, San Diego's public housing authority. The San Diego Housing Commission provided a list of projects that had begun or completed affordable housing agreements with the Commission.

Circulate then requested project files from the City of San Diego's Development Services Department to verify project data, such as number of base units, affordable units, and bonus units. The City of San Diego does not currently track the various characteristics of bonus projects in an electronic format. Circulate instead visually inspected the project file of every entitled AHBP project and hand-coded a data set.  

12 A review of project-level data provided in different formats from the Housing Commission and the Development Services Department found inconsistencies in the number of base units, affordable units, and bonus units included in some projects. This lack of consistent data may have resulted from changes to projects over time, however, there was no electronic data source that clearly contained the accurate, final project information. The lack of accurate, accessible data impacts the ability to track housing production.
Circulate compared 12 years of production figures in San Diego from the California Density Bonus Program, with 20 months of data on the AHBP, which is published in an electronic format along with this report. The production data for the prior California Density Bonus had been received previously from the San Diego Housing Commission. The new AHBP went into effect on August 27, 2016 and Circulate received data on projects which had received their entitlements and submitted applications to the San Diego Housing Commission from the program’s start through April 2018.

Developments that have submitted for affordable housing agreements applications are shovel-ready or already under construction. Projects are not included in this analysis if they had not submitted a housing agreement application, even if they had received their entitlements from the City of San Diego during the timeframe of this analysis. This analysis therefore only includes projects that are fairly certain to be constructed because of how far along they are in the development process. This means that this analysis is relatively conservative and that there are even more AHBP projects in process that were not included in our analysis.

There are three kinds of homes considered for this analysis:

- **Base Density Units:** These are the units that a developer would be allowed to build using only the density allowed by a parcel’s zoning.

- **Bonus Units:** These are the units that a developer is allowed to build above and beyond base density, when they use the AHBP or the California Density Bonus program.

- **Affordable Units:** These are units that are deed-restricted to be rented only to Very Low or Low Income households.

It may also raise a red flag for local governments’ ability to track and preserve deed-restricted affordable housing units.

13 An electronic version of the permit data is available online as Appendix A of this report at [http://www.circulatesd.org/goodbargain](http://www.circulatesd.org/goodbargain)
When a 100 percent affordable project uses a bonus, the entire project is made up of Affordable Units, even if not directly required by the bonus programs.

All of the mixed-income AHBP projects include Very Low Income units for tenants making 50 percent of Area Median Income. The choice by mixed-income developers to overwhelmingly choose Very Low Income units may not be intuitive, since those units produce only a small amount of rental revenue. However, the bonus programs require relatively few units to be deed-restricted when they are the most deeply affordable. Developer pro formas perform better with the more deeply affordable units, because fewer units overall will produce less-than-market rents.

While a major policy rationale for bonus programs is to incentivize market-rate developers to include affordable units, 100 percent affordable developments also are frequent users of bonus programs. Affordable developers already plan to make 100 percent of their units affordable, so they can use bonus programs without any costs to their pro formas. The bonuses allow them to stretch limited public subsidies to create even more units. When a 100 percent affordable project uses a bonus, the entire project is made up of Affordable Units, even if not directly required by the bonus programs.

All but one AHBP project in our data set include Very Low Income units. The one exception is a 100 percent affordable project that included Low Income units for tenants making 60 percent of Area Median Income.

Scripps Mesa Project
Photo source: Monarch Group
The data for the AHBP projects demonstrate a significant market response to the AHBP. A summary of the relevant data is provided below.
Annual Production

While the California Density Bonus program and AHBP occurred over different time scales, the annual entitlements of the AHBP shows a substantial increase, including:

- 490 percent increase annually for the number of projects applying to use the program
- 551 percent increase annually for the number of deed-restricted affordable homes entitled
- 356 percent increase annually for combined affordable and market-rate homes entitled
- 468 percent increase annually for the number of mixed-income developments that applied for a bonus
- 617 percent increase annually for 100 percent affordable developments that applied for a bonus
**Overall Production**

Overall, production figures have been similarly robust, including:

- 703 Affordable Units were entitled in the first 20 months of the AHBP. At this pace, AHBP will produce more affordable homes in three years than the California Density Program produced in San Diego in 12 years.

- 2,303 combined affordable and market-rate homes have been entitled through the AHBP, almost half the number of the 4,660 homes entitled over the entire 12 years of the California Density Bonus program.

- 545 Bonus Units were entitled in the first 20 months of the AHBP. The bonus units already exceed the 460 bonus units produced in the California Density Bonus program.

- 24 percent of all AHBP Bonus Units are within 100 percent affordable developments, meaning they are also deed-restricted as Affordable Units, even though not required by the AHBP.

- 26 mixed-income developments and six 100 percent affordable developments have been entitled under the AHBP.

These figures represent a significant accomplishment for the City of San Diego to make a dent in the housing affordability crisis. Below are a number of tables that visually display AHBP production compared with California Density Bonus.
The success of the AHBP presents lessons that can be used by both the City of San Diego, and other governments. Policymakers can find success offering expanded development capacity and regulatory relief, in exchange for developers choosing to set-aside affordable units.

Since its adoption in 2016, the City of San Diego has made numerous refinements to the AHBP program, ratcheting up the bargain between developers and the policy goals to create more affordable units. The Faulconer Administration’s proposed Complete Communities program represents a similar exchange, offering regulatory relief when projects include permanently affordable homes.14

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In the California legislature, Assemblymember Lorena Gonzales proposed Assembly Bill 2345 in February of 2020, which would extend San Diego’s bonus enhancements to jurisdictions statewide. As the state and local governments seek to address California’s housing supply crisis, they can look to the success in the City of San Diego, and further extend this model of offering developers a good bargain if they contribute to affordable housing.

**Policymakers can find success offering expanded development capacity and regulatory relief, in exchange for developers choosing to set-aside affordable units.**
Conclusion

The AHBP has proven its potential for building new affordable and market-rate homes in San Diego. In the few years since adoption, a substantial number of developers have used the program.

Tracking the AHBP allows for its performance to be measured, demonstrating its ability to generate substantially more affordable and market-rate homes. The ability to track deed-restricted affordable homes is crucial for the preservation of affordable housing stock. Accurate and consistent data, shared between the City of San Diego and the San Diego Housing Commission, will allow for the continued success of this program.
While the AHBP alone will not solve all of San Diego’s affordability problems, it has made a meaningful contribution toward addressing housing needs. The City of San Diego should continue to closely monitor the programs’ usage and consider further improvements to encourage more housing production. The State of California, and other jurisdictions, should look to expand San Diego’s model and offer developers a good bargain to build affordable homes.