

Early Win for Affordable Homes Bonus Program

An Initial Evaluation of the City of San Diego's Innovative Tool for Affordable Homes



Mr. Robinson by Jonathan Segal

Acknowledgements



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Colin Parent is Policy Counsel and Interim Executive Director at Circulate San Diego. His focus is affordable transit, safe walkable neighborhoods, and effective land use policy. 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.

Colin has authored and edited numerous reports for Circulate San Diego. His work focuses on housing supply, expanding public transportation, and making San Diego more affordable to live, work, and play. He is also an elected member of the City Council of La Mesa, California.

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*Kalos Apartments by Community Housing Works
Photography by Mark Davidson*

Executive Summary

The City of San Diego's new Affordable Homes Bonus Program (AHBP) has shown initial success with a surge in applications to produce more market-rate and affordable homes.

In 2016, the City of San Diego adopted an innovative new AHBP to encourage the development of new homes. The AHBP provides meaningful financial incentives to developers that choose to build a percentage of their developments as affordable.

The AHBP builds on the existing California Density Bonus Law, which offers a variety of benefits to developers, namely added development capacity, when they choose to provide at least some deed-restricted affordable homes. Proposed by Mayor Faulconer's administration, San Diego's AHBP was approved unanimously by the San Diego City Council. Circulate San Diego led a coalition of advocates to support the program's adoption.

While no project has yet been built using the AHBP, it can be evaluated by examining project application data. In the

few short months of its existence, the AHBP generated a surge of applications for new market-rate developments in the City of San Diego that plan to include affordable homes.

An analysis of data from the San Diego Housing Commission shows that compared to the predecessor Density Bonus Program, the AHBP is set to produce:

- 900 percent increase per month for projects applying to use the program.
- 473 percent increase per month for deed-restricted affordable units.
- 453 percent increase per month for combined affordable and market-rate homes.

The AHBP is an early success for the concept of city-wide policymaking to advance the goals of housing production and sustainable growth for San Diego. The City of San Diego should monitor the program closely to ensure its continued success.



Introduction

Circulate San Diego recently launched our #PlanDiego initiative, to provide research and policy advocacy related to sustainable land uses in the San Diego region.

This report provides an initial evaluation of the City of San Diego's Affordable Homes Bonus Program (AHBP), which was proposed by Mayor Faulconer's administration and adopted by the City Council in 2016.¹ The program builds on California's existing Density Bonus Law, which provides incentives for developers that choose to set-aside at least some of their new units as affordable.²

In the few short months of the AHBP's existence, San Diego has seen a surge of new applications for projects seeking density bonus benefits. These applications are substantially higher than applications using the predecessor basic Density Bonus Program, which complied with state law but did not go above and beyond to encourage more home production. While the AHBP is too new to have resulted in new construction, the application data demonstrates the substantial market response to the AHBP, and it provides a window for what San Diego can expect from its use going forward.

“In the few short months of the AHBP's existence, San Diego has seen a surge of new applications for projects seeking density bonus benefits.”

San Diego is facing a housing affordability crisis, as is much of California. Part of San Diego's response to this crisis is the development and adoption of the AHBP, an award winning program³ which is considered to be one of the most ambitious and robust bonus programs in the state.⁴ The City of San Diego has received significant praise and positive press coverage for its efforts to promote affordability through the AHBP.⁵



Background

The initial concept for the AHBP was developed through a working group convened by the author in 2014 while he was the Director of Policy at the San Diego Housing Commission. That working group included representatives from the Building Industry Association and the San Diego Housing Federation, as well as numerous developers, architects, and City of San Diego staff with an expertise in land use policy. The working group developed an initial program proposal which became the framework for the eventual AHBP.⁶

After the initial proposal was completed, the working group was continued by the City of San Diego's Development Services Department under Dan Normandin, who drafted the implementing municipal code.

San Diego's AHBP program builds on the baseline policy of California Density Bonus Law. California law requires that developers may receive a 35 percent density bonus when they build 11 percent of their initial zoning capacity as affordable homes.⁷ San Diego's AHBP goes beyond this baseline to allow developers to receive up to 50 percent additional capacity, if they provide up to 15 percent of zoning capacity as affordable homes. San Diego's AHBP also allows developers to receive up to five incentives, whereas the California Density Bonus Law limits incentives to three. "Incentives," in the language of California Density Bonus Law, are concessions from development standards to streamline entitlement and to accommodate added development capacity.

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.⁸ Studies show that locating affordable homes near transit creates a measurable reduction to greenhouse gas emissions.⁹ While the AHBP program applies city-wide, the parking benefits from AB 744 apply only near transit, focusing the AHBP toward transit oriented development.

San Diego's AHBP strikes a bargain, benefitting developers that invest in new market-rate residential projects, and the advocates that seek affordable homes. The AHBP also helps implement the City of San Diego's Climate Action Plan by promoting development near transit, allowing more residents to commute to work without relying on a car. This win-win-win arrangement is why a broad coalition of industry groups, environmental organizations, and affordable housing advocates supported the AHBP through a coalition organized by Circulate San Diego.¹⁰ As San Diego continues to develop public policy to address the affordability crisis, advocates should consider the win-win-win approach of the AHBP as a model.¹¹

“San Diego’s AHBP program strikes a bargain, benefitting developers that invest in new market-rate residential projects, and the advocates that seek affordable homes.”

The changes to policy in the AHBP program are relatively modest, building on existing policy tools. They do not require wholesale updates of community plans, or entire reimagining of neighborhoods. Instead, they utilize the existing community planning documents, and provide for limited enhancements to individual projects, and only when those projects contribute to the City's goals for affordable homes and implementing the Climate Action Plan. No neighborhood is singled out, and all share in the program equally. This approach recognizes that city-wide problems like housing affordability require city-wide solutions.



North 30 by Andrew Malick

The Numbers

Data on the AHBP's performance shows substantial benefits from the program, and a dramatic increase in pipeline housing production compared with the former Density Bonus Program.

To evaluate the AHBP, Circulate San Diego requested production and application figures from the San Diego Housing Commission. We requested data through two separate requests, and compared production figures from the predecessor Density Bonus Program with data reflecting applications for projects seeking to use the AHBP.¹²

The new AHBP application data spans the eight months between August 27, 2016,¹³ and March 2017. By comparison, production for the former Density Bonus Program has 12 years of data available.

The data for the AHBP projects represent applications only, because the program has not been in effect long enough for projects to be entitled and constructed. Nonetheless, the application figures demonstrate a significant market response to the AHBP.¹⁴ A summary of application data is provided below.

- 18 market-rate developers have already submitted applications for the AHBP. 36 market-rate developers received Density Bonus benefits between 2005 and 2016. That is a 900 percent increase in projects using the program per month.
- The projects applying for the AHBP dedicate an average of 14 percent of their base density units as affordable, compared with only 13.5 percent under the former Density Bonus Program. The increase in the percentage of affordable units per project is modest, but the total number of projects choosing to build the affordable units is much greater.
- The AHBP projects will receive an average density increase of 35 percent, compared with 28 percent under Density Bonus.
- The current AHBP applicants are set to produce 229 units of market-rate bonus housing above base-density, compared with 669 from the entire Density Bonus Program, a 616 percent increase in production per month.
- The AHBP is set to produce 96 units of deed-restricted affordable homes, compared with 365 for the life of the Density Bonus Program, a 473 percent increase per month.
- The AHBP is set to produce 12 deed-restricted

affordable homes per month, compared to only 2.5 per month with the former Density Bonus Program. The AHBP is expected to produce 29 market-rate units per month, compared with only 2.5 from the former program.

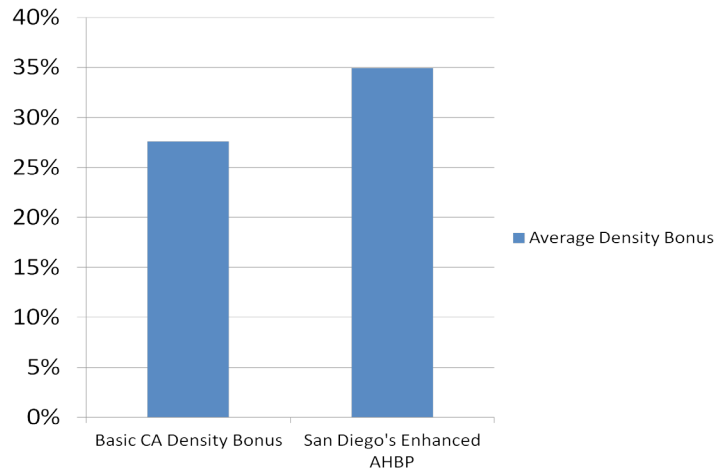
- The total number of units set to be produced using the AHBP is 997 units, compared to 3959 with the former Density Bonus Program, a 453 percent increase per month.
- If all of the current applications for the AHBP are constructed, and applications continue at the current pace, the AHBP will out-produce the entire 12-year history of the former Density Bonus Program in three years.

These figures represent a significant accomplishment for the City of San Diego to make a dent in the housing affordability crisis facing our region.

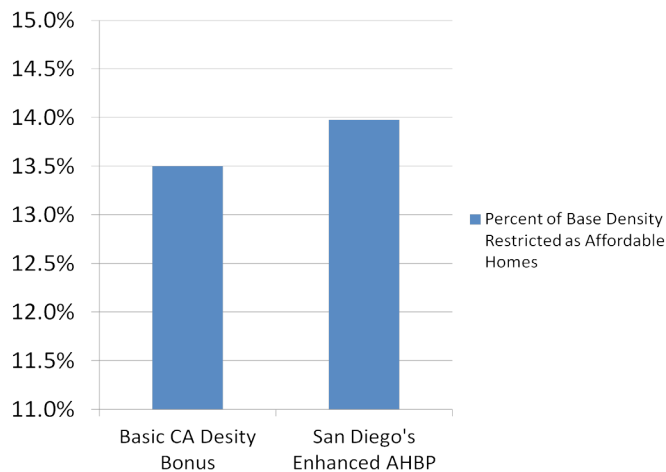


The North Parker by Jonathan Segal

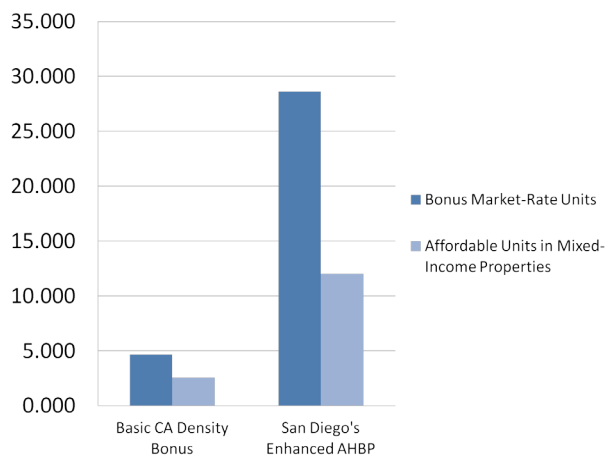
Average Density Bonus



Percent of Base Density Restricted as Affordable Homes



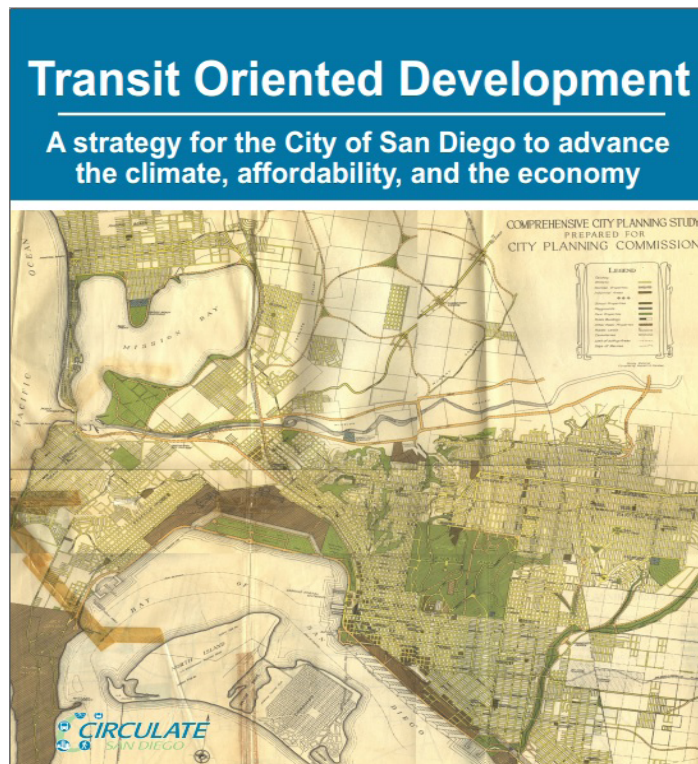
Home Production Per Month



Next Steps for the AHBP in San Diego

The numbers show a clear market interest for the AHBP. If the program continues at its current rate, it will result in substantial new production for both market-rate and affordable homes. San Diego should continue to implement the program, and adjust the policy as necessary to ensure that the program's potential is realized.

Circulate San Diego recently published a variety of recommendations for improving the AHBP in our report titled "Transit Oriented Development."¹⁵ The City of San Diego subsequently reconvened the bonus program working group, which is planning to consider many of our below recommendations:



- Create an exempt Affordable Homes staff lead in Development Services who is responsible for ensuring compliance and expedites for the AHBP.
- Allow automatic Floor Area Ratio bonuses equal to the density bonus, without requiring use of an incentive.
- Ensure off-site procedures are more streamlined and routine than the inclusionary zoning variance process, while implementing the equity provisions in the AHBP code.
- Clarify waiver and incentive language to ensure compliance with changing state law.
- Allow developers to purchase binding pre-review of incentives and waivers for projects.
- Clarify that the AHBP can be used for projects that do not propose to use existing maximum density, including projects downtown that are not reaching FAR maximums.
- Conduct a more complete program review in two years to evaluate more changes.



Conclusion

The AHBP has demonstrated great potential for building new affordable and market-rate homes for San Diego. In the few short months since the program was adopted, data from the San Diego Housing Commission shows that a substantial number of developers have applied to use the program.

If the AHBP continues at its current pace, it is likely to produce a substantial number of affordable homes, as well as an even larger number of market-rate units.

While the AHBP alone is not likely to solve all of San Diego's affordability problems, it will make a meaningful contribution toward addressing housing needs. The City of San Diego should continue to closely monitor the program's usage, and also consider a variety of improvements to encourage even more production from the AHBP.



The North Parker by Jonathan Segal

Endnotes

1. San Diego Municipal Code, available at <http://docs.sandiego.gov/municode/MuniCodeChapter14/Ch14Art03Division07.pdf>.
2. California Government Code § 65915. For a useful primer on California Density Bonus Law, read Kronick, Moskovitz, Tiedemann & Girard, Maximizing Density Through Affordability (January 1, 2015) page 4, available at http://www.kmtg.com/sites/default/files/files/Density%20Bonus%20Law_2015_Web%20Version.pdf.
3. 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>.
4. Andrew Keatts, "One Term in, Faulconer Hasn't Moved the Needle Much on New Housing," Voice of San Diego, January 23, 2017, available at <http://www.voiceofsandiego.org/topics/government/one-term-in-faulconer-hasnt-moved-the-needle-much-on-new-housing>.
5. David Garrick, "New incentives coming for low-income housing," San Diego Union Tribune, July 2, 2016, available at <http://www.sandiegouniontribune.com/news/politics/sdut-housing-san-diego-incentive-density-bonus-2016jul02-story.html>; Andrew Bowen, "San Diego Boosts Affordable Housing Incentives," KPBS, June 21, 2016, available at <http://www.kpbs.org/news/2016/jun/21/san-diego-boosts-affordable-housing-incentives>.
6. San Diego Housing Commission Density Bonus Working Group, Transition Document on Density Bonus Working Group (October 22, 2014), available at <http://www.circulatesd.org/affordablehomesbonus>.
7. California Government Code § 65915. Note that both California Density Bonus 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.
8. 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>.
9. TransForm and the California Housing Partnership Corporation, Why Creating and Preserving Affordable Homes Near Transit is a Highly Effective Climate Protection Strategy (2014), available at <http://www.transformca.org/transform-report/why-creating-and-preserving-affordable-homes-near-transit-highly-effective-climate>;
- San Diego Housing Federation, Location Matters (September 2016), available at <http://housingsandiego.org/advocacy/climate-action>.
10. Circulate San Diego, Policy Letter: Coalition of Supporters for Affordable Homes Bonus Program (June 16, 2016), available at <http://www.circulatesd.org/affordable-homesbonus>.
11. Circulate San Diego, Policy Letter: Recommendations for Win-Win-Win Approaches to Housing Affordability in the City of San Diego (January 26, 2017), available at http://www.circulatesd.org/policy_letter_recommendations_for_win_win_win_approaches_to_housing_affordability_in_the_city_of_san_diego.
12. An electronic version of the San Diego Housing Commission production data is available online at <http://www.circulatesd.org/ahbpreport>.
13. The AHBP took effect August 27, 2016. San Diego Municipal Code, available at <http://cs.sandiego.gov/municode/MuniCodeChapter14/Ch14Art03Division07.pdf>.
14. AHBP application data is compared with the projects that entered into agreements with the Housing commission to utilize the benefits of the former Density Bonus Program. Data on 100% affordable developments was also provided from the Housing Commission, but it is not included in this analysis. 100 percent affordable developments have unique financing that is not easily comparable to market-rate projects. A separate analysis on the impact of the AHBP on 100 percent affordable developments could be conducted at a later time.
15. Circulate San Diego, Transit Oriented Development (2016), available at <http://www.circulatesd.org/todreport>.



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