Priced Out

The Challenge of Affordable Housing Downtown

A Research Report by the Center on Policy Initiatives

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CENTER ON POLICY INITIATIVES

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Executive Summary

Housing in the Centre City Area has grown dramatically over the past 30 years. Redevelopment and other economic development programs have increased the supply of new housing, including many affordable units. Prices, however, remain higher than the region, and the challenge of providing adequate amounts of affordable housing remains great. Specific findings of this report are summarized as follows.

Rapid Growth and Rising Prices

- The residential market downtown has grown dramatically, with currently 14,670 housing units in the area, with 9,645 having been built since 1975, and another 6,707 units in the pipeline.
- Housing costs have increased dramatically in the downtown area
  - The median for sale price has increased over 211% since 1991.
- Housing is more expensive downtown than the region
  - The annual (2004) median sale price is substantially higher downtown at $519,000— significantly more than the county median price of $459,000.
  - Average rents in the Centre City Area are significantly higher—29% to 39%— than the average rents in the county.
- For sale housing downtown requires a very high income to purchase. The household income needed to purchase the median priced home downtown is over $150,000.00 a year

Affordable Housing Created

- Since 1975 the downtown area has created 2,300 new or rehabilitated affordable housing units out of 9,645 new or rehabilitated units—a figure of 24%
  - The largest share of units—42%— is targeted at individuals (housing designed for a single resident only). This includes lofts and single residence occupancy units (SROs).[1]
  - Senior housing is the next largest category, with 35% of the units.
  - Family housing has comprised only 17% of all the affordable housing units, with 13% of the units targeted towards small families (projects with between 0 and 3 bedrooms) and 4% for large families (projects with between 1 and 4 bedrooms).
  - Special purpose housing—units specifically for those with special needs such as the disabled or at risk of becoming homeless—makes up 6% of all units.
- The vast majority of affordable housing are small: zero bedroom units comprise 87% of all affordable housing created

[1] SRO: A guest room in a hotel where 20% of the rooms serve single room occupants within a space between 70 and 220 sq ft with private or shared sanitary facilities and no kitchen. These requirements are set forth in the City of San Diego (Municipal Code / Ch 11, pg 20).

Jobs/Housing Balance Challenge

- Although 1343 new affordable units of affordable housing have been built for working age residents, this figure falls short of total demand from job growth downtown by 6,006 units.

Introduction

San Diego faces an affordable housing crisis. In 2004 the overall median price of a single-family home in San Diego County rose to a record $459,000, 21 percent higher than previous year's overall median.[2] For the month of February 2005 the median price of a single family detached home in San Diego County was $555,000.[3] Currently, only 10% of San Diego households can afford to purchase the median priced home in San Diego County.[4] Additionally, although area median incomes in San Diego rank as only the 55th highest in the nation, housing prices rank third highest nationally (nationwide only Boston and the San Francisco Bay Area have lower median home prices).[5]

For renters the situation is also difficult. Between 2000 and 2003, the percentage of San Diegan's paying more than 35% of their earned income towards rent (the maximum amount suggested as a guideline from the Department of Housing and Urban Development) increased from 37% to 47%.[6] The affordable housing crisis places a particularly heavy burden on low-income households, as they pay an increasing amount of their income towards housing costs. Unaffordable housing also contributes to overcrowding as more people share smaller residential space, particularly the poor.[7]

Fortunately, a central mandate of redevelopment is the creation of affordable housing, particularly in relation to expanding work and employment opportunities. As section 33070 of California Redevelopment Law states "the Legislature finds and declares that decent housing and genuine employment opportunities for all the people of this state are vital to the state for all of the following reasons:"

> (a) Hazardous, congested, and unsanitary housing debilitates occupants' health to the point of impairing motivation and achievement.
> (b) Lack of employment opportunity creates despair and frustration which may precipitate violence.
> (c) Unfit housing and lack of employment opportunity depend on each other to perpetuate a system of dependency and hopelessness which drains the state of its valuable financial and human resources. To address the concerns of good employment and affordable housing opportunities, redevelopment agencies are required to meet certain legal standards in creating affordable housing.

Additionally, California Redevelopment Law requires that no less than 20 percent of tax increment revenue derived from a redevelopment project area is used to increase, improve, and preserve the supply of affordable housing for very low, low, and moderate-income households. These funds can be used to provide financial assistance to upgrade

[2] Dataquick real estate information services, 2004.
[3] Dataquick real estate information services, monthly report 2005.
[4] California Association of Realtors Quarterly Report (1st quarter) 2005.
"[5] Home prices jump record 21% in 2004" San Diego Union Tribune, January 18, 2005.
[6] American Community Survey Change Profiles, San Diego County, Housing File.
[7] Willem van Vliet (Editor). *Affordable Housing and Urban Redevelopment in the United States : Learning from Failure and Success*, Beverly Hills, CA: Sage Publications, 1996.

existing units, build new housing, and improve public facilities and infrastructure that service low- and moderate-income residents. Additionally, 15% of all new or rehabilitated units in a redevelopment project area must be restricted to those with low incomes.

In downtown San Diego, the Centre City Community plan of 1992 also reinforces the importance of creating affordable housing. The plan states that a central goal of the downtown revitalization is to substantially increase the number of people living in the area, and to provide a range of housing to meet the needs of an economically and socially balanced population. Specifically, the plan calls for

> *"a balance… in the number of housing units and jobs to match facilities and services."*[8]

Given these laudable goals, and the potential of redevelopment to address the affordable housing problem, this report analyzes the housing market downtown and how well our affordable housing programs are meeting the needs of San Diegans. The analysis consists of three sections covering: (1) trends in downtown housing costs, (2) types of affordable housing created, (3) a nexus analysis to determine if the balance of new employment and housing is adequate to meet demand.

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[8] 1992 Centre City Community Plan, p. 14

I. Rapid Growth and Rising Prices

A. Housing Growth Downtown

When downtown redevelopment began in 1975, there were approximately 5025 residential units in the downtown area.[9] Since then, 9,645 new residential units—including many affordable housing units—have been built in the Centre City Area. This brings the current (2005) total to approximately 14,670 residential units downtown.[10]

The growth in housing downtown has varied year to year, but generally occurred at a higher rate downtown than the county. During the 1990s downtown's housing inventory increased at a rate of 3.6% annually, compared to 0.9% at the county level.[11] Today downtown's residential market is extremely strong, with one out of every four new housing units developed in the City of San Diego currently being built in the area.[12]

Over the past several years, housing in the downtown area has also grown particularly fast. As table I shows (below), between 1975 and 1999 4,334 new housing units were built or rehabbed in the downtown area. This includes 1,435 for sale units, and 2,899 rental units. Between 2000 and 2004, however, the number of new residential units has more than doubled, adding 5,311 more housing units and pushing the cumulative total of new units to 9645.

Table I: New Housing Development Downtown

Fiscal Year	Cumulative Total New Units (since 1975)	Cumulative For Sale	Cumulative Rentals	% of New Units that are Rentals	Cumulative Number of New Income Restricted (affordable) Units	% of New Units that are Income Restricted
1975-1999	4334	1435	2899	67%	1,456	34%
2000	4482	1435	3047	68%	1,500	33%
2001	4762	1646	3116	65%	1,500	31%
2002	5986	2316	3670	61%	1,624	27%
2003	7806	3333	4473	57%	2,208	28%
Total Through 2004	**9645**	**4262**	**5383**	**56%**	**2,300**	**24%**

Source: CCDC Projects Log, 2005.

[9] Centre City Community Plan Technical Appendices, 1975.
[10] This figure includes some destroyed housing that has been eliminated in the project area. The source is the CCDC, Alexandra Elias, associate planner.
[11] CCDC Housing and Market Absorption technical appendices, Community Plan Update Working Papers p. 72, 2003.
[12] Market point real estate information services, Downtown submarket report, 2004.

Table I also shows the change in the percentage of units being built that are for sale versus for rent. While by 1999 over two thirds (67%) of the new units were rentals, by 2004 this figure had dropped to 56%.

The percentage of new units that are income restricted has also declined. As table I shows, in 1999 34% of all new or rehabbed units were income restricted, but in 2004 the figure declined to 24%. This percentage, however, is still higher than the Redevelopment Law requirement that 15% of all new or rehabbed units in a project area be restricted for lower income residents.

B. Projected Housing Growth Downtown

The pace of residential growth continues downtown with another 6,707 units either submitted, under approval, or in development for the years 2005-2007.[13] As table II shows, if the projects currently slated for completion in 2005—both affordable and market rate units—are indeed finished, it would provide a total of 11,485 total new units since 1975. Additionally, with only 96 affordable units currently under development, this would reduce the percentage of all new or rehabbed units that are affordable to 21%. As table II projects, by 2006 the affordable housing percentage could drop as low as 19% of the total new or rehabbed units.

These figures, however, are merely estimations, and it is very difficult to precisely determine when new affordable units may be produced.[14] As a result, neither this analysis nor CCDC has attempted to project the production of new affordable units after 2006.

Table II. Projected Housing Development Downtown 2005-2007

Fiscal Year	Cumulative Total New Units (since 1975)	Cumulative For Sale	Cumulative Rentals	% of New Units that are Rentals	Number of New Income Restricted (affordable) Units	Percentage of New Units that are Income Restricted
2005	11485	5805	5680	49%	2,396	21%
2006	12664	6831	5833	46%	2,396	19%
Total Through 2007	**16352**	**9924**	**6428**	**39%**	**NA[15]**	**NA**

Source: CCDC Projects Log and projections, (Dale Royal author).

[13] CCDC Projects Log, Dale Royal author, 2005.

[14] The main reason affordable units are difficult to project beyond a year or more is due to the financing and timing structures of housing development. Developers may hold properties that will pay market rate units far longer than those at affordable levels. Affordable housing units must have a much shorter development window—that is to say they are proposed, approved, and built out much faster than market rate ones—because of the costs to hold property for extended periods of time while the development and permitting process occurs.

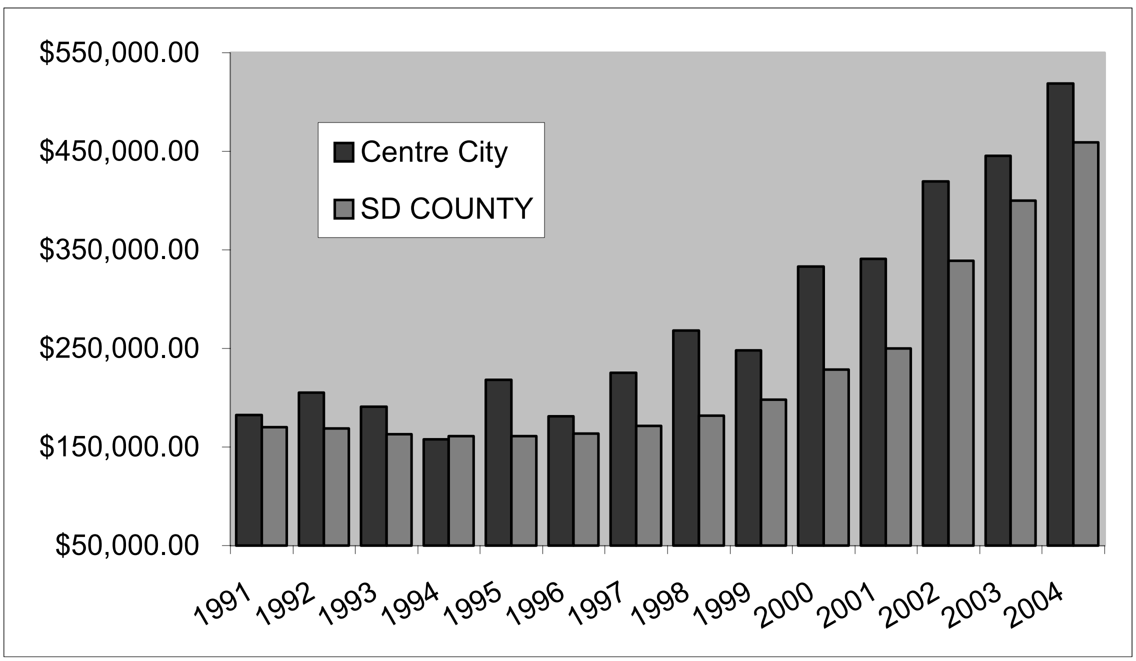
[15] See note 16 below for a further explanation.

C. Housing Prices: Homes

In 2004 annual median San Diego County home prices jumped a record 21.1 percent (for single family units) to $459,000.[16] Downtown, however, the figures were even higher, with single-family home prices increasing 46% over the previous year, and condominiums increasing 26.6%[17] over the previous year. The Centre City Area has become one of the most expensive sub markets in the region, with a median single-family home price of $730,000 in 2004, and an overall median price of $519,000.[18]

As Figure I shows, the median sale price for all homes has increased dramatically since 1991, keeping or outpacing prices at the county level, with the one exception of 1994. Between 1990 and 2003, the median condo sale price in the Centre City Area increased 205%.[19] Between 1990 and 2004 the median home sale price (condos and detached units) in the Centre City Area increased 211%.[20]

Figure I: Median Sale Price of Homes, Centre City Area and San Diego County, 1991-2004[21]



Source: RAND California Real Estate Sales Data, and Dataquick Information Services.

[16] Data quick information services
[17] Data quick information services.
[18] Data quick information services.
[19] Data quick information services.
[20] Data quick information services.
[21] Includes both condominiums and detached homes. Source: dataquick information services.

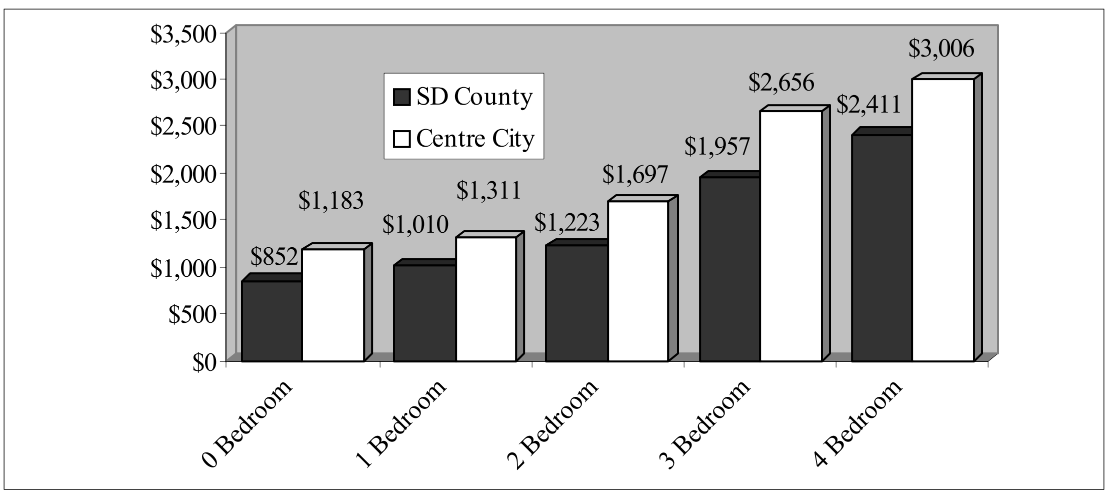
I. Income Needed to Purchase the Median Sized Home

An overall median price of $519,000 is certainly high for most San Diegans, and this price makes downtown housing out of reach for many working people. Assuming a $25,000 dollar down payment and 30 year mortgage at 6.25%, a household would have to earn $158,000 per year to afford the median priced home.[22] Currently, less than 7% of San Diego county households earn that amount.[23]

D. Housing Prices: Apartments

Rental prices downtown are higher than the region as well. As figure II indicates, the average rent for a 2 bedroom apartment downtown is $1697.00, while three bedrooms are $2,656.00, and 4 bedrooms $3,006. Overall, the average rental prices are higher downtown at each apartment size compared to the county. Indeed, the average rent in the Centre City Area ranges between 29% (one bedroom) to 39% (zero bedrooms) higher than rents in the county.

Figure II: Average Rent by Number of Bedrooms, Centre City Area and San Diego County, 2004



Source: Market Point Real Estate Information Services, 2004

These rental costs are particularly high given that the fair market rents (FMR) set by the Department of Housing and Urban Development are much lower. Fair Market Rents (FMRs) are a good indicator of what the low income population can afford to pay for a "fair market" rate for rent. The FMR is a gross rent estimate; this includes shelter rent

[22] This figure uses standard loan amortization and does not include points or closing costs. Calculations are found in the appendix.
[23] American Community Survey, San Diego County 2003. Household incomes, file 1. 2003. US Census Bureau.

and the cost of utilities, except telephone. People eligible for Section 8 vouchers must rent an apartment at or below the FMR for the area where they want to live.

As chart I shows, the FMR of various apartment sizes in San Diego ranges from $854 for studios to $2,080 for four bedroom apartments.

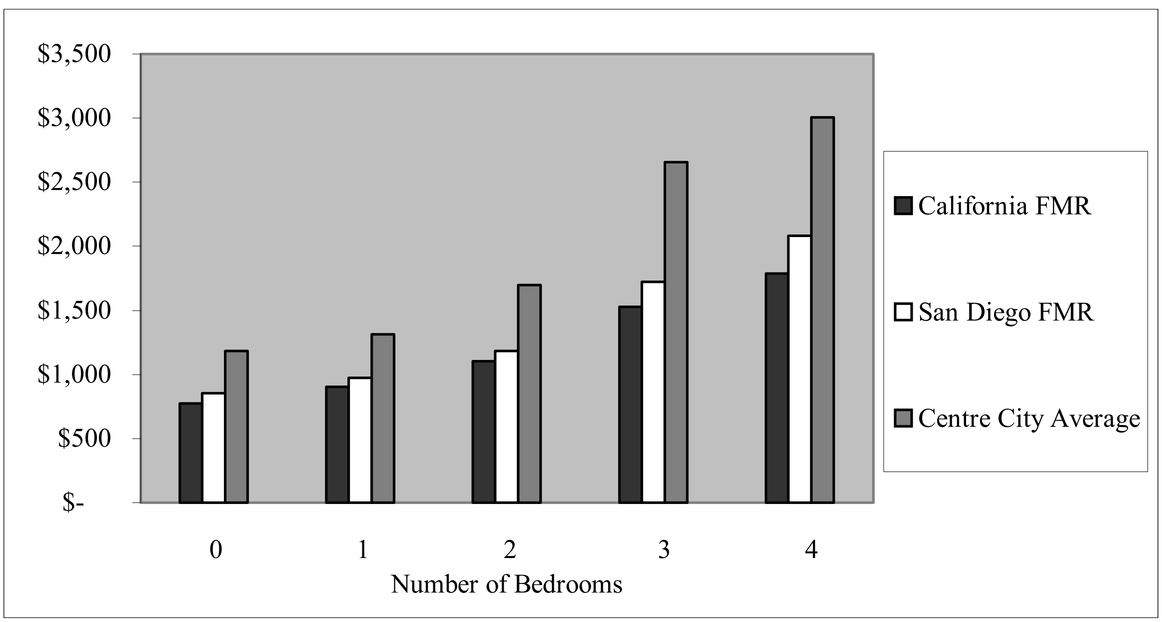
Chart I: Fair Market Rents By Number of Bedrooms, California/San Diego 2004

Fair Market Rents (FMR)[3] by Number of Bedrooms					
Location	Zero	One	Two	Three	Four
California	$772	$904	$1,104	$1,530	$1,786
San Diego, CA MSA, California	$854	$975	$1,183	$1,725	$2,080

Source: Dept. of Housing and Urban Development, Fair Market Rents for San Diego

When compared against the Fair Market Rent, downtown's average rents are 39-54% higher. As Figure III shows, the FMR for the state and San Diego County are lower than the average in the Centre City Area.

Figure III: Fair Market Rent and Average Rents Compared, State of California, County of San Diego, and Centre City Area 2004



Source: Fair Market Rents established by the Dept. of Housing and Urban Development 2004. **http://www.huduser.org/datasets/fmr.html**. Centre City average rents provided by Market Pointe Real Estate Information Services, 2004.

I. Income Needed to Afford Rents in Centre City

Rental rates higher than the FMR present a barrier for low income earners and households. Indeed, one of the standard Department of Housing and Urban Development indicators of housing affordability is how many hours a minimum wage earner would have to work to afford a market rate apartment, spending no more than 30% of his or her earned income on housing.[24]

Figure IV illustrates how far out of reach the downtown apartment market is for a minimum wage earner. To afford a studio apartment a minimum wage earner would have to work approximately 135 hours per week, and a single bedroom apartment would require working 150 hours per week.

Figure IV: Number of hours needed to work per week at minimum wage to afford average rent by number of bedrooms[25]

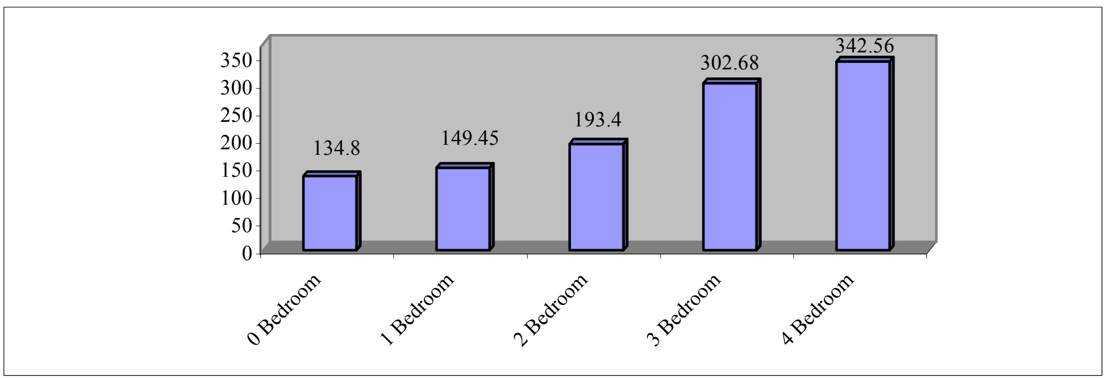
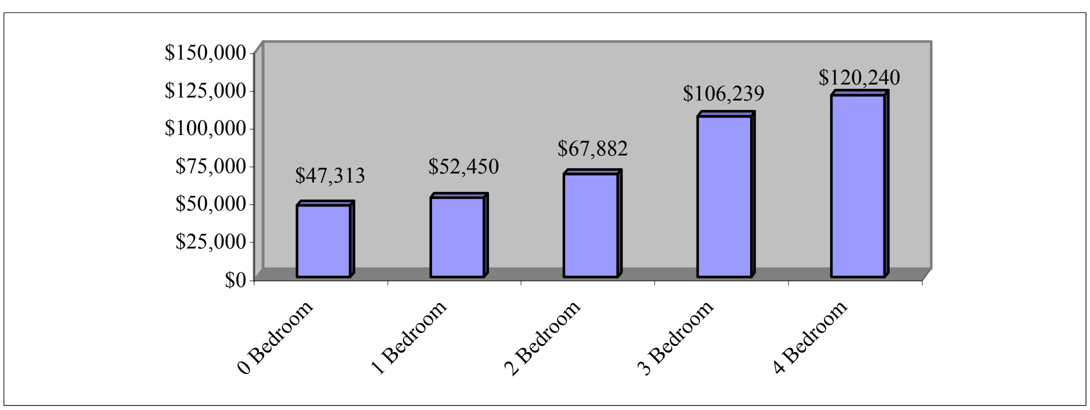


Figure V illustrates the annual wage needed to rent an apartment by number of bedrooms. A studio apartment downtown requires an earned income of over $47,000, while a single bedroom requires an earned income over $52,000.

Figure V: Annual Income needed to afford average rent apartment by number of bedrooms[26]



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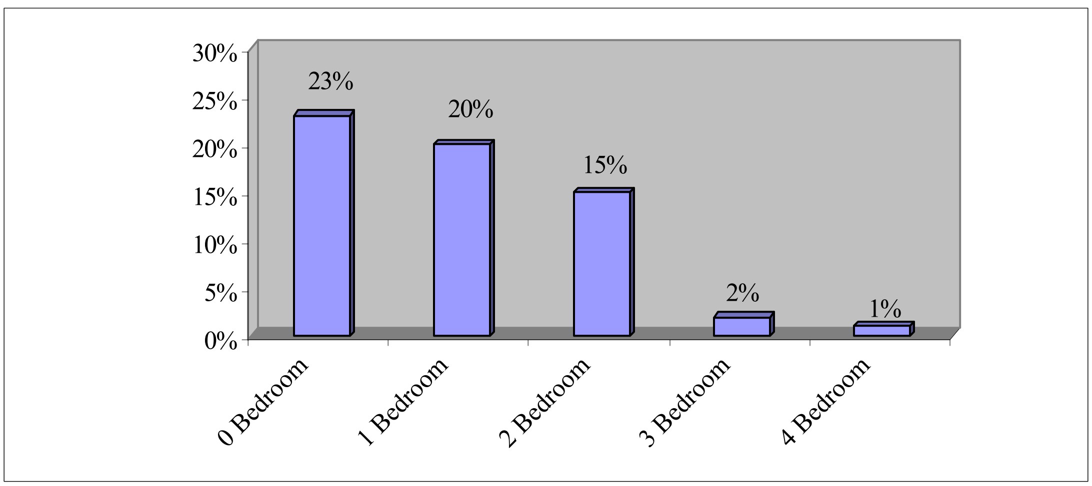
[24] These guidelines established by HUD are available online at: www.hud.gov/
[25] Scenario assumes a single wage earner paying no more than 30% of income towards housing.
[26] Scenario assumes a single wage earner paying no more than 30% of income towards housing.

II. Occupations That Can Afford Current Rental Rates, Centre City, 2005

Although the aforementioned examples are hypothetical models based on the scenario of a minimum wage earner, we can compare the current rental rates to the current employment downtown to estimate the number of occupations that can afford current rental rates in the Centre City Area.

The following Figure (VI) illustrates the current percentages of downtown private sector occupations that could afford to rent the various sized apartments given the HUD guidelines of no more than 30% of income spent on housing. Only 23% of the employees can afford a studio apartment, and even fewer—20%-- can afford a single bedroom apartment. Two bedroom apartments are within reach for 15% of the occupations, while three and four bedroom prices are only affordable for two or one percent respectively.

Figure VI: Percentage of private sector jobs downtown with earnings adequate to pay the average rent by number of bedrooms[27]



Given the high prices of downtown housing, the creation of adequate levels of affordable units is critical. Particularly important is providing new units that can absorb the increasing demand of a growing downtown with significant numbers of new low wage households.

[27] The distribution of private sector jobs is documented in the CPI report "Shortchanged"

II. Affordable Housing Created

Through redevelopment funds and the leveraging of gap financing in the form of federal and state tax credits and grants, downtown redevelopment creates affordable housing to meet the required 15% of all new and re-habilitated units. Additionally, 20% of all tax increment—the new property taxes collected in a redevelopment project area after the area is created and new construction occurs—must be set aside to an affordable housing fund. This fund can only be used for the production or rehabilitation of affordable housing, or for the creation of infrastructure to serve affordable housing projects. The following section presents an overview of how much funding has been generated, how much spent, and the current status of affordable housing funds for the downtown redevelopment project area.

A. Funding for Affordable Housing

Affordable housing funds come from primarily from two sources: bonds and tax increment. To date, both of these sources have generated over 55 million dollars for affordable housing.[28] Through 2004, CCDC has contributed 40 million dollars towards affordable housing funds by issuing bonds. These bonds are to be paid off with future revenues generated by increased property taxes in the redevelopment project area. The remaining funds come from federal tax credit programs and local Redevelopment Agency assistance.

Table VII shows the balance of these funds in 2003, and the fiscal year 2004, including earnings and expenditures. For 2004, over 9 million dollars was generated in TIF, interest, and other revenues for affordable housing, while over 8 million dollars was spent on new affordable housing projects. This left the city with over thirty million dollars in affordable housing funds in the Centre City Project Area affordable housing fund.

Table VII. Affordable Housing Funds 2003-2004

FY 2003 Ending Balance	TIF Housing Deposit to Low/Mod	Interest Earnings FY 2004	Other Revenues FY 2004	Total Low/Mod Revenues FY 2004	Total Low/Mod Expenditures FY 2004	FY 2004 Ending Balance
29,538,831	**8,917,040**	**202,017**	**335,926**	**9,454,983**	**8,828,336**	**30,165,478**

Source: Centre City Development Corporation, Annual Budget Report, 2004

To date $45,678,177.00 has been expended for affordable housing projects in downtown San Diego.[29] For the forthcoming fiscal year 2005, the CCDC has budgeted 7 million

[28] This figure represents the amount of bond, tax credit, and other financing that CCDC has generated since 1975. Source: Dale Royal, Centre City Development Corporation, and CCDC Annual Budget Report, 2005.

[29] Source: Centre City Development Corporation Annual Budget Report to the City of San Diego, 2005.

dollars in affordable housing expenditures (the total planned budget is 151 million dollars).[30]

B. Types of Affordable Housing Created

Affordable housing is defined as rental or for sale housing that can be purchased or leased by people earning up to a certain income level. Specifically, affordable housing in redevelopment project areas is defined by a percentage of Area Median Income (AMI). The current AMI for San Diego is $63,400, and households that have incomes up to or at 50%, 80%, and 120% of AMI all qualify for affordable housing.

Affordable housing units can also be either for sale or for rent. To date, two for-sale affordable units have been built downtown (less than 1% of all new affordable units).[31] These two units were actually existing units that were purchased through the CCDC home buyer assistance program which helps prospective homeowners who have limited incomes to purchase residential units downtown. The vast majority of the affordable housing units downtown, however, are rental units.

Affordable rental units are not only restricted by income, but also by the characteristics of the prospective occupant. Some units are targeted or restricted to special needs populations. As Table VIII shows, the types of unit vary by the residents that the units are restricted or targeted to. Large family affordable housing units typically range between 3-4 bedrooms, but may have 2 bedrooms only. Small family units typically have 1-2 bedrooms, but may have zero bedrooms. Affordable housing units aimed at individuals are restricted to a single resident; this includes lofts and single residence occupancy units (SROs). Units for seniors are restricted to people over 65, and special needs populations are provided units which are limited to those with special physical, mental, or other health problems.

Table VIII. Types of Affordable Housing Units

Type of Unit	Definition
Large Family	Units typically with 3-4 bedrooms, but may have 2
Small Family	Units typically with 1-2 bedrooms, but may have 0 or 3
Individuals	Units specifically for a single resident
Seniors	Units specifically for people over 65
Special Needs Populations	Units specifically for with physical and/or mental disabilities, chronic health problems.

Looking at the distribution of affordable housing by type (Figure VII) the largest share of units is for individuals—42%. Senior housing is the next largest category, with 35% of the units. Family housing has comprised only 17% of all the affordable housing units, with 13% of the units being for small families and 4% for large families. Special purpose

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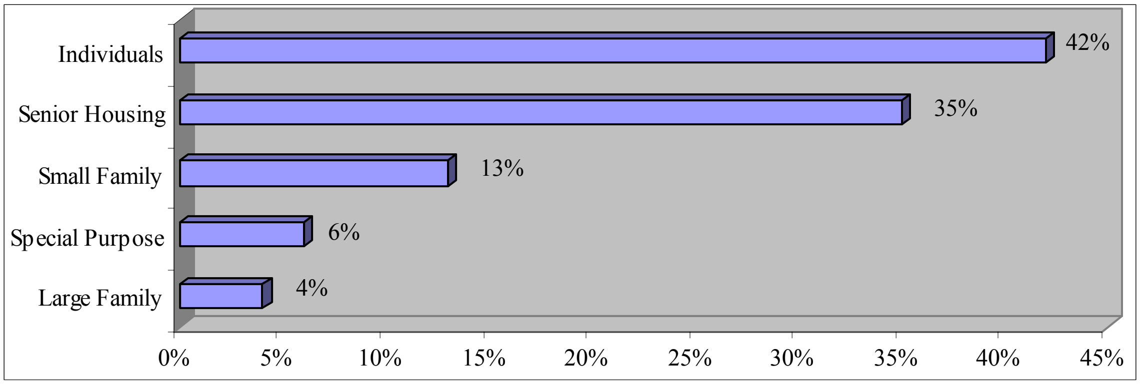
[30] See CCDC 2005 proposed budget. City of San Diego Redevelopment Agency, April 14, 2004.
[31] Source: CCDC Projects Log, First Time Homebuyer Assistance Fund, 2004.

housing—units specifically for those with special needs such as the disabled or those at risk of becoming homeless—comprises 7% of all units.

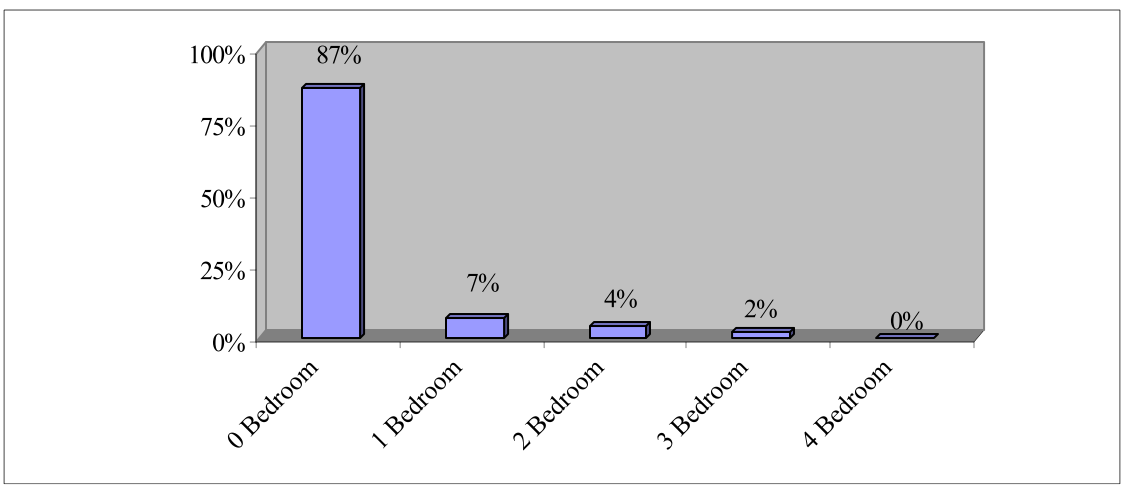
Figure VII: Distribution of Affordable Housing Units by Type



Source: CCDC Affordable Housing Projects Log, 2004.

Figure VIII shows the distribution of affordable units by number of bedrooms, indicating a clear lack of multi-bedroom units. 87% of the units created are zero bedroom (studios, lofts, SROs), while 7% are single bedroom, 4% two bedroom, and 2% three bedroom. These housing configurations illustrate how there are very few multi-bedroom units.

Figure VIII: Distribution of Affordable Housing Units by Number of Bedrooms



Source: CCDC Affordable Housing Projects Log, 2004.

C. Affordable Housing Built Outside of the Centre City Area with CCDC Financial Assistance

Since 1993, the City Redevelopment Agency and the Centre City Development Corporation have used funds generated by downtown redevelopment for building affordable housing projects outside of the Centre City Redevelopment Plan Area. The projects received tax credits and land acquisition assistance from the Centre City Development Corporation totaling $7,230,196.00.[32]

To date, these projects represent eight different developments totaling 458 affordable units. They have been created in areas ranging from City Heights to Point Loma (see table IX below).

Table IX. Affordable Housing Constructed With Centre City Redevelopment Corporation Financial Assistance Outside of the Centre City Redevelopment Project Area

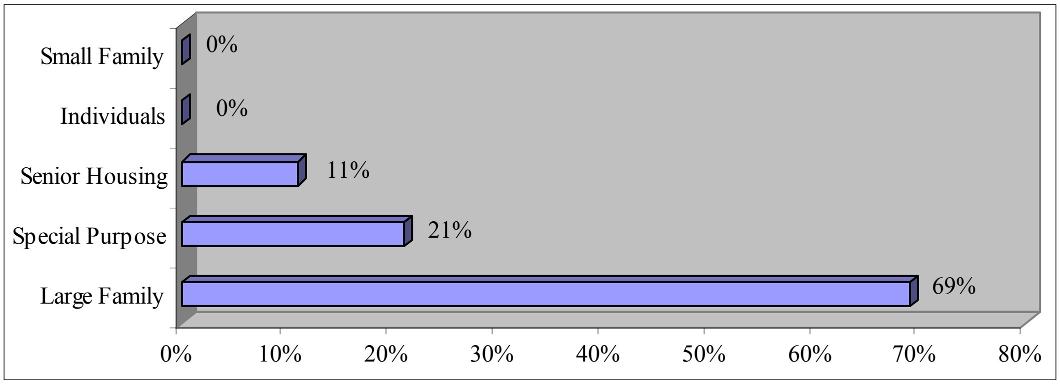
Development Name	Area	Affordable Units
City Heights Metro Villas	City Heights	119
Hacienda Townhomes	East Village	51
Mercado Apartments	B. Logan	144
St. Stephen's Apartments	Southeast Development Corporation Project Area	50
Del Mar Apartments	Golden Hill	32
SDYCS Hillcrest	Hillcrest	10
SDYCS Wing Street	Pt. Loma	32
Vietnam Vets	North Bay	20
Total		**458**

Source: CCDC Project Log, 2005.

Figure IX shows the types of affordable housing built outside of the CCDC area with CCDC financial assistance by unit type. The majority of the units have been aimed at Large Families (69%), while special purpose housing accounts for 21% of the total. Senior housing constitutes the remainder of the affordable units at 11%. No housing for individuals or small families has been created outside the project area with CCDC financial assistance.

[32] Affordable Housing Projects Log, City of San Diego Housing Commission and Redevelopment Agency, 2005.

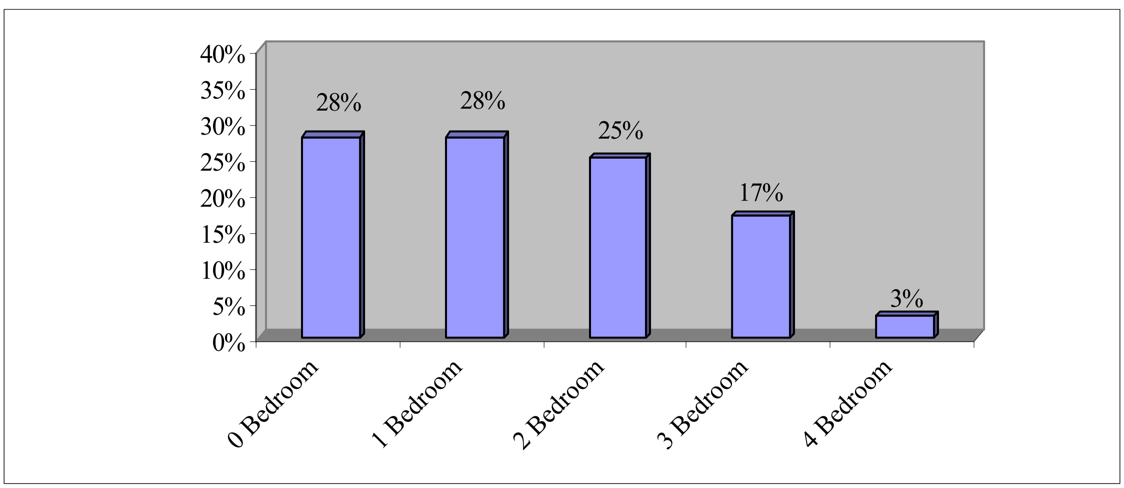
Figure IX. Types of Affordable Housing Built Outside of the Centre City Redevelopment Project Area with CCDC Financial Assistance (through 2004).



Source: City of San Diego Redevelopment Agency and San Diego Housing Commission Annual Affordable Housing Report, 2004.

Figure X shows the size of affordable housing units built outside of the CCDC area with CCDC financial assistance. As the figure shows, one and two bedroom units each comprise 28% of the total units. 25% of the units are three bedroom units, zero bedroom units comprise 11%, while four bedroom units represent only 3% of the total.

Figure X. Types of Affordable Housing Created Outside of the CCDC Area with CCDC Financial Assistance by Size



Source: CCDC Project Log, Affordable Housing, 2005.

The lack of affordable housing for families raises the issue as to how balanced employment and housing are in the downtown area. Much of the employment growth downtown has been in the service sector, and many of these jobs are low-paying, indicating that many low-income households have been created in the area. The next section examines if the affordable housing created in the downtown area is adequate to meet the potential demand for affordable housing given the new jobs created downtown since redevelopment began in 1975.

III. The Challenge of Balancing Jobs and Housing

As redevelopment law and the Centre City Community Plan indicate, a balance between jobs and housing is critical. Affordable housing is essential to meet this challenge because the creation of new low paying jobs creates a demand for affordable housing. This is not to say that a significant amount of affordable housing has been built downtown that can house working age people. As Chart II indicates, some affordable housing is targeted to what are typically non-employed residents (those with special needs and seniors), while other housing is specifically targeted at individuals who are more likely to be in the labor force (families and individuals without special needs and non-seniors). The total number of new units created to date that may house employed residents is 1343. While an impressive sum, is this figure adequate for the tremendous employment growth downtown over the past 30 years?

Chart II. Types of Affordable Housing Created Through 2004, CCDC

Housing for Typically Non-Employed Residents	
Special Purpose Housing	160
Senior Housing	797
Total	**957**
Housing for Potentially Employed Residents	
Large Family Housing	87
Small Family Housing	301
Housing Aimed at Individuals	955
Total	**1343**

Source: CCDC Projects Log, 2005.

Since the creation of a redevelopment project area in 1975 approximately 26,000 gross jobs have been created, creating a significant number of new households in the region.[33] These new households place greater demands on the need for affordable housing if they contain a large number of low-wage earners. To determine if there have been significant numbers of low-wage earning households created by the new jobs downtown, we conducted a retrospective nexus analysis—an evaluation of the occupations created downtown between 1980-2004.[34] In basic terms, we calculated the shift in employment by Standard Industrial Classification (SIC) between 1980 and 2004, using data on the employers provided by Dun and Bradstreet business information services. The total number of new net private-sector jobs during that period (26,000) was then analyzed by

[33] See CCDC annual report for the City Budget, Centre City Development Corporation, 2004. This figure is also calculated through the standard nexus method used in this study. Our estimates are essentially the same as reported by CCDC.

[34] The nexus method is widely used to establish the relationship between new employment and affordable housing needs. For further examples see Keyser Marston and Associates, Nexus study for the City of San Diego, 2005, San Diego, California.

industry and occupation including wages. These new net jobs and wage levels were then used in a standard nexus analysis to determine the number of new low-income households at various levels of Area Median Income (AMI).

Chart III shows the results of the analysis and the different households that have incomes as a percentage of area median income. The chart shows that many households earn less than the area median income: 8.3% of households have incomes up to 50% of AMI, while 25.9% of households have incomes between 50% and 80% of AMI. An additional 20.8% have incomes between 80% and 120% of AMI. In total 55% of these households have incomes that qualify for affordable housing. This figure represents a total of 7,349 households at income levels up to 120% of Area Median Income. If we subtract out the affordable housing created downtown—1343 units—the gap is 6,006 units.

Chart III: Distribution of Affordable Housing Unit Demand from Employment Demand and Shortage/Excess

AMI Total Households created by new employment downtown: 13,347	**Percentage Households**	**Number of Households**	**Affordable housing created (excluding seniors/ special purpose housing)**
Up to 50%	8.30%	1108	
Between 50 and to 80%	25.90%	3463	
Between 80 and 120%	20.80%	2778	
Totals	**55%**	**7349**	**1343**
Shortfall of Affordable Housing:		7349-1343=**6006**	

Source: CPI Nexus Analysis using Keyser Marston Methodology and Dun and Bradstreet Business Information Data and Occupational Employment Statistics Data on Wages.[35]

[35] The analysis presented here is based on the standard nexus method used by consultants such as Keyser Marston, and Economics Research Associates. See the appendix for a more detailed analysis of the figures.

IV. Conclusion & Policy Recommendations

The revitalization of San Diego's downtown has increased the supply of housing for the region and redevelopment downtown is clearly an important tool in addressing the affordable housing crisis. As this report shows, however, the growth of downtown housing has been rapid, but also increasingly expensive. Fewer and fewer households can afford the high prices of either for-sale housing or rental units downtown. Additionally, affordable housing for families remains a great challenge. Finally, the growth of low-wage employment downtown since 1975 has created a demand for affordable housing that is very difficult to meet, despite the creation of thousands of new affordable units.

To address these continuing concerns that affect both downtown residents, employees, and the region, the city can take several important policy steps.

- The City and Redevelopment Agency can increase the amount of funding available for affordable housing. This can be done several different ways. First, the amount of increased property tax revenue (TIF) set aside for affordable housing can be increased, as many cities in California have done.[36] Second, the City and Redevelopment Agency can issue new bonds to increase the amount of funding available for affordable housing.

- The City and Redevelopment Agency can increase incentives for affordable housing development by enacting a more pro-active Request for Proposals system when housing development is being considered.

- Make government-owned land available for affordable residential uses.

- Require impact reports for new development projects to determine affordable housing needs of new employees at the project

- Create an Affordable Housing Advisory Committee to the CCDC board with substantial representation of affordable housing development expertise.

[36] For a listing of cities that have exceeded the 20% TIF set aside requirement, see State of California Redevelopment Agency, Annual Housing Report, 2004.

Appendix

Median Home Price Income

The income needed to afford the median priced home downtown is based on the standard loan amortization of a 30 year mortgage with a $25,000 down payment, and property taxes. This figure does not include points or closing costs, however, nor does it assume existing debt liabilities of the purchaser. The interest rate used was 6.25%. Specific figures for the purchase price of a $518,496.00 home are listed below.

Income:	$158,000
House value:	$ 518496
Loan value:	$ 493496
Monthly Principal+Interest:	$ 3038.55
Monthly Prop Tax+Insurance:	$ 648.12
Down Payment	4.82 %
House value:	$ 490883
Loan value:	$ 465883
Monthly Principal+Interest:	$ 2868.53
Monthly Prop Tax+Insurance:	$ 613.60
Monthly PMI:	$ 204.53
Down Payment	5.09 %
Loan To Value (LTV)	95.18 %

Nexus Analysis

The estimation of housing cost demand based on employment growth is based on the standard model used in Nexus studies (see for example Keyser Marston, Housing Impact Fee Nexus Analysis, December 2004, prepared for the City of San Diego). This model estimates occupations and households based on different development types: retail, commercial, hotels, office buildings, and so forth. For the downtown nexus analysis, we used figures provided by the Centre City Development Corporation regarding the total construction to date, and the standard industry/occupational matrices provided by the Bureau of Labor Statistics.

The nexus methodology used to establish linkage fees and examine other types of development impact is a multi-step procedure. We describe this procedure below.

Step 1. Determine the size of various types of development in the study area.
The first step is to determine the total square footage of building types in a study area. For the Centre City Community Plan Area, we have used the projections provided by the Centre City Development Corporation in the Draft Community Plan, 2005. These development intensities vary across several different types: retail, civic uses, hotels, residential, and office development.

Step 2. Estimate the total number of employees by development type.
The second step entails estimating the total number of employees by development type using employment densities. Employment densities are quantitative measures of how many employees work per square foot in a particular type of building. In the case of hotels, this figure can also be calculated by the number of rooms in the hotel. We used roughly the same employment densities as other nexus studies in California (Keyser Marston) which we modify slightly to adjust for more specific development types based on more local data. We used the following employment densities for different development types:

Hotel: 1 employees per room
Retail: 1 employee per .350 sq. feet
Office: 1 employee per 225 sq. feet

Indirect and Direct Employment

Typical nexus studies include direct employment—those jobs created "within" the new building. Indirect employment, including janitors, security guards, and other types of service personnel, should be included in any analysis in order to understand how many new incremental jobs will be created by the new development. Using data from the Cleaning Management Institute Floor Care Pricing and Production Guidelines, 2004, we estimate that a new office or retail building will employ a new janitor for every 25 thousand square feet of development. The figure is lower if the office space is of the highest class, but we have used this figure as a conservative estimate. Employment densities for security guards or other maintenance personnel that would be included in any indirect employment are not currently available.

Multipliers were not used in this analysis to determine other potential job creation to the region, and therefore the analysis here is more conservative than one that would include the multiplier effect.

Adjustments for Regional Industry Shifts

Some nexus studies include adjustments for regional industry shifts. For example, San Diego has lost a significant number of defense industry contractors, but gained a significant number of biotech firms. In projecting any industry employment, these trends are often included in any analysis. Because this study is examining a very small area of the region—the downtown—it assumes that the patterns of industries downtown will remain similar to those trends in development currently existing. It may be the case that some industries contract while others grow—for instance more biotech firms may choose to locate downtown rather than in suburban office parks. It is impossible to precisely predict these potential changes, however. Thus, we have assumed that the current configuration of industries in the downtown area will remain somewhat similar in the future.

Step 3: Estimate industry and occupational employment by development type including wages.

After the total employment densities for both direct and indirect employment are generated, and then the total employment for various industries and occupations can be obtained. Nexus studies rely on assumptions about what the typical tenants of different development types are. These are often derived from national level survey data. In our analysis, as mentioned in Step 2, we assume that the current configuration of industries will remain somewhat the same, with some minor adjustments for county level trends. By drawing on Dun and Bradstreet data for the current downtown tenants, we generated a profile of industries by SIC and NAICS code by development/building type. The industry/building type matrix is as follows.

Office Development

SIC	Percent of Jobs	Description
411	5.81%	LOCAL AND SUBURBAN TRANSPORTATION
412	1.46%	TAXI CABS
472	2.24%	PASSENGER TRANSPORTATION ARRANGEMEN
481	1.80%	TELEPHONE COMMUNICATIONS
602	3.15%	COMMERCIAL BANKS
614	2.24%	PERSONAL CREDIT INSTITUTIONS
621	4.57%	SECURITY BROKERS AND DEALERS
632	3.58%	MEDICAL SERVICE AND HEALTH INSURANC
633	1.82%	FIRE, MARINE, AND CASUALTY INSURANC
641	5.93%	INSURANCE AGENTS, BROKERS, & SERVIC
651	8.15%	REAL ESTATE OPERATORS AND LESSORS
653	5.05%	REAL ESTATE AGENTS AND MANAGERS
738	4.00%	MAILING, REPRODUCTION, STENOGRAPHIC
737	7.47%	COMPUTER AND DATA PROCESSING SERVIC
738	8.49%	MISCELLANEOUS BUSINESS SERVICES
811	4.23%	LEGAL SERVICES
801	2.00%	OFFICES OF PHYSICIANS
869	2.21%	MEMBERSHIP ORGANIZATIONS, NEC

871	6.50%	ENGINEERING & ARCHITECTURAL SERVICE
872	5.54%	ACCOUNTING, AUDITING, & BOOKKEEPING
873	2.87%	RESEARCH & TESTING SERVICES
874	10.87%	MANAGEMENT AND PUBLIC RELATIONS
Total	100%	

Hotel/Motel Development

SIC	Percent of Jobs	Description
701	100%	Hotels and Motels

Retail Development and Services

SIC	Percent of Jobs	Description
514	4.26%	GROCERIES
521	2.13%	LUMBER AND OTHER BUILDING MATERIALS
523	2.15%	PAINT, GLASS, AND WALLPAPER STORES
525	2.00%	HARDWARE
531	4.99%	DEPARTMENT STORES
539	3.00%	MISC. GENERAL MERCHANDISE STORES
541	3.76%	GROCERY STORES
561	3.00%	MEN'S & BOYS' CLOTHING STORES
562	3.48%	WOMEN'S CLOTHING STORES
565	7.46%	FAMILY CLOTHING STORES
571	4.55%	FURNITURE AND HOMEFURNISHINGS STORE
573	3.20%	RADIO, TELEVISION, AND COMPUTER STO
581	26.00%	EATING AND DRINKING PLACES
594	7.00%	MISCELLANEOUS SHOPPING GOODS STORES
596	6.04%	NONSTORE RETAILERS
599	4.00%	RETAIL STORES, NEC
752	7.88%	PARKING
753	5.10%	AUTO REPAIR
Total	100%	

Once total industry employment is generated using the employment densities and the above rates of total tenancy by SIC, the Bureau of Labor Statistics County Level Occupational/Industry Employment Staffing Patterns, 2003 data were used to establish the Standard Occupational Classifications for the jobs within those industries. Finally, wages were included by SOC based on the 2004 Occupational Employment Survey data from the Employment Development Department of the State of California.

The algorithm is written as: ED x SF x SICrate x SOC x OES to generate the full employment distribution for the development type, where ED= employment density, SF= square footage, SIC rate = the rate of employment by SIC, SOC= the standard occupational classifications from the county level staffing patterns, and OES= the median hourly wage from the county level occupational and employment statistics survey.

While some nexus studies use the occupational groups within an industry to determine the number of jobs at various income levels, this is less accurate than using the staffing patterns of an industry to calculate the total universe (every single job, not just a broader occupational category) of employment within an industry. For instance, telecommunications has a high number of managerial and sales occupations, but the average wage of those occupations does not accurately reflect the full distribution of the wages within the industry. Some managers, for instance, may have very low wages, but the presence of some very high earning mangers may artificially raise the average wage within the "Management Occupations" category. Although far more time consuming, we used the entire staffing pattern of each industry to estimate the total wages and jobs for each development type.

Step 4: Estimate the number of new households by income level.
Based on the decennial census, we used 1.61 workers per household to determine the number of new households created based on the new employment figures. The nexus model calculates the household income by taking the occupational income and then multiplying it by 1.61. This generates a distribution of households along various income levels.

Step 5: Estimate the number of new households who are at affordable housing income levels.
Affordable housing is aimed at several income levels defined as a percentage of the Area Median Income (AMI). AMI for San Diego County in 2004 is 63,400. Households earning only a percentage of this income fall into several categories as listed in the figure below.

Very Low Income	Less than 50% AMI	$31,700
Low Income	51-80% of AMI	$32,334 to $50,720
Moderate Income	81-120% of AMI	$51,354 to $76,080

Step 6: Estimate the number of new employees residing within the City of San Diego.
We followed Keyser Marston's use of the San Diego County commuting patterns data from the census to estimate the number of new households that were likely to reside in the city. See Keyser Marston and Associates, 2003, page 16. The percentage of people holding jobs in the city and residing in the city was approximately 58%. We therefore use this rate to estimate the number of new incremental households that reside in the city, and the final total number of households that may be low income households residing within the city and earning various levels of income as a percentage of AMI.