



# A Moon-Shot Plan Is Needed to Build San Diego Out of Its Housing Shortage

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PROVIDING STRATEGIC VISION, ANALYSIS, CAPITAL AND DEAL ACCESS TO DEVELOPERS, INVESTORS, LENDERS, ATTORNEYS AND PUBLIC AGENCIES FOR OVER 25 YEARS.

## Synopsis

*In this paper, I propose that developers, housing advocates and public agencies within the San Diego Region team to create a ten-year plan to build 17,000 housing units per year, a goal of 170,000 housing units, to rebalance supply and demand. If accomplished, pricing would stabilize, young families could be housed and the "crisis" would be over.*

*To achieve this, we need to build slightly denser home subdivisions in the abundant "infill" locations throughout our region. The path to a solution includes setting policy goals to achieve these numbers; revising plans so that what we prescribe can actually be built; and changing state and local regulation so that housing may be built faster.*

## Introduction

Throughout the decade of the 70's, 80's and 90's almost all of San Diego's housing supply was delivered in increments of four figures (1,000 units or more) on "green fields" as master planned communities, most beginning with the name "Rancho".

Back then, developers spent years planning and negotiating with capital partners, public agencies, environmentalists and neighbors to solve to the final development.

There were relatively few developers, building a lot of homes.

Today, there is almost no developable land remaining in our region's cities (although the unincorporated County has huge land reserves). There are many developers building relatively few homes, at unit counts which, even in the largest projects, typically number in the hundreds, not the thousands, and usually far fewer.

That is the heart of our regional housing problem, and that of the entire coast of California. Far fewer homes are being built. The fact that they are being built "vertical" as infill, not "horizontal" on green fields has resulted in the delivery of mostly apartments and condos rather than single family homes. What few single-family homes that are being built have spiked in price, or are constructed far from where the jobs are located.

Yet, there is a tsunami of demand now rising from young families, in particular, for homes. The "Millennial" population, the oldest of whom are approaching 40 years, are the largest portion of our growing population and are not being accommodated. Failure to supply to that demand portends serious economic consequences to our region.

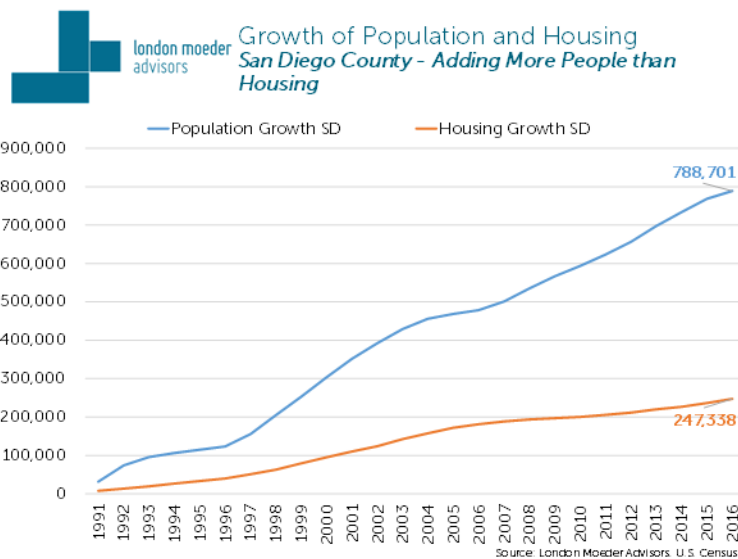
## Repealing the Laws of Supply & Demand

No one can repeal the laws of supply and demand. The only way to solve the housing crisis, which we would argue is unprecedented (even in perennially housing starved San Diego) is to build our way out of it.

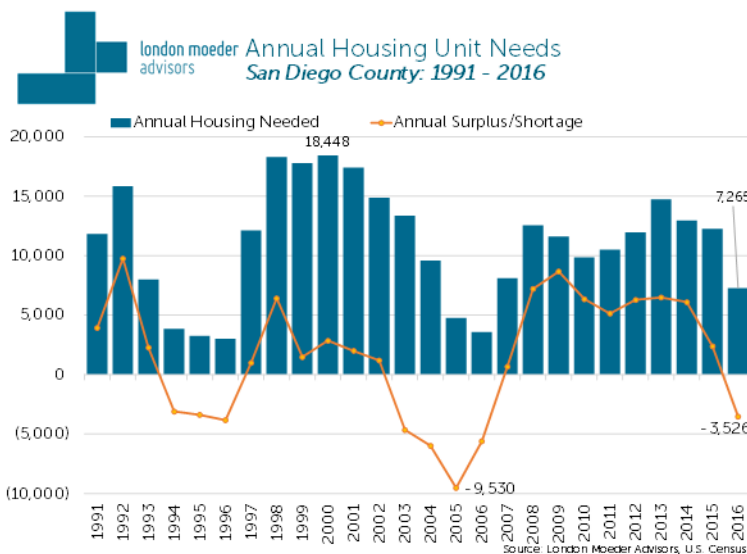
We did the math to determine how many units must be built over the next ten years. The following discussion summarizes our analysis.

## Population Growth and Housing

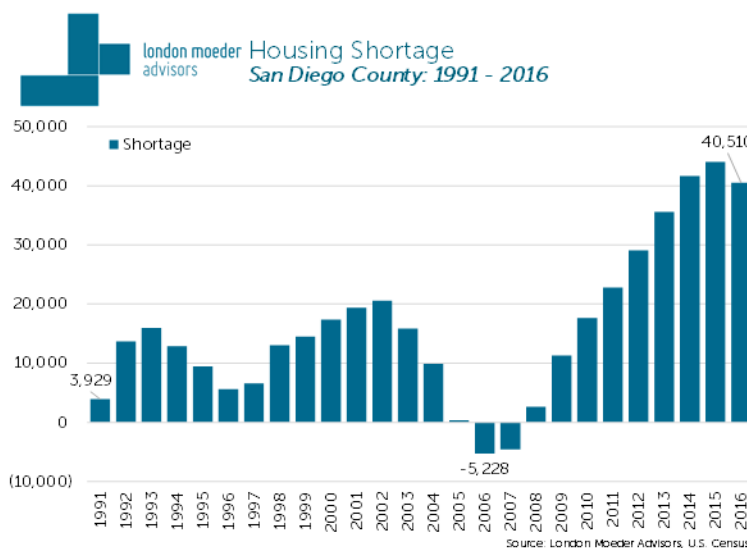
One way to understand the shortage (there are certainly other ways) is the "disconnect" between growth and construction. From 1991 to 2016, the San Diego Region grew by 788,701 persons. Yet only 247,338 housing units have been built. An accumulated shortage of 40,510 units is the result. Here is a picture of this growth disparity:



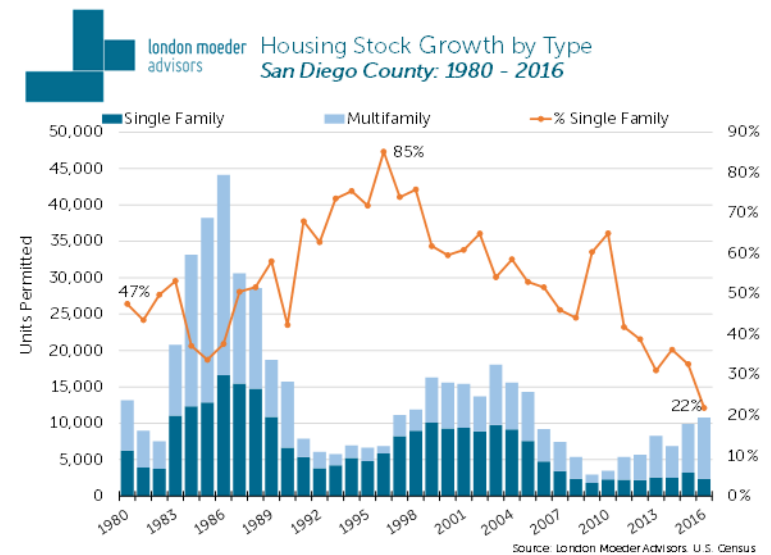
Over the past 25 years there are far more years in which the housing sector has experienced a shortage of that year's housing needs, as demonstrated year-by-year in the following graph:



The next graph demonstrates the cumulative housing shortage since 1990.



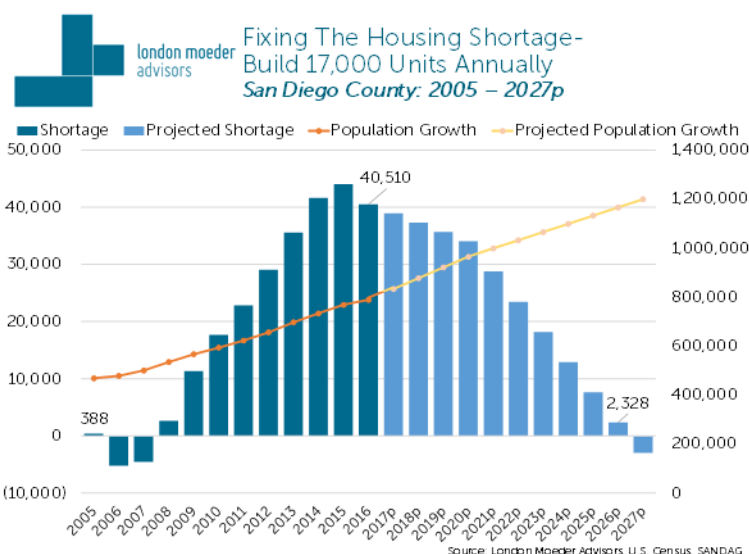
Just building more units will not solve the problem. The shortage is exacerbated by the disparity in the type of housing that has actually been produced. Building apartments Downtown probably is not the best long-term solution for housing Millennial families. Yet, most of the units built during our current economic cycle have been multifamily rentals. Single-family production peaked in 1998 at 85% of inventory built that year. Last year, only 22% of units built were single-family homes:



## Fixing the Housing Shortage

For San Diego to build its way out of the current housing shortage, an annual average of 17,000 units must be constructed. If that can be accomplished, then the San Diego Region will return to a balance of housing and population/household growth. Such an achievement would have a profound, stabilizing impact on the long-term health of our regional economy, particularly in the retention and expansion of jobs and companies.

Based on SANDAG's population projections through 2030, the region will add approximately 377,000 persons between 2017 and 2026. At the current housing composition of 2.86 persons per household, this translates to nearly 132,000 units needed to accommodate the expected population growth. When coupled with the current shortage of approximately 40,510 units, the annual rate of 17,000 new units will reduce the housing shortage to just over 2,300 units by 2026. In 2027 the region would reach a housing surplus for the first time since 2007, as shown in the following graph:



## The Solution Is More Units, But Not Just...

Sometimes when a problem appears so overwhelming, we tend to freeze up. We do this in our personal lives when there are too many tasks in front of us, or there is a daunting decision looming which causes inertia. In public policy, I could cite global warming as just such an overwhelming problem.

But the housing shortage is not overwhelming. It is fixable, and the solutions are well within our grasp. I propose that we task ourselves to launch a San Diego Regional "Moon Shot", the goal of which is to bring the market in balance within ten years. Here is what we would have to do:

- ▶ Build 17,000 housing units each year for the next ten years.
- ▶ Build them as two to three level townhomes, rowhomes and granny flats, ranging in size from 1,000 to 2,000 square feet. These unit types will mostly appeal, in terms of size, design and location, to the Millennial Segment, which will be the largest underserved demographic segment.
- ▶ Target urban and suburban infill sites, many of which currently feature underutilized, old and vestigial buildings, including shopping malls and industrial sites.
- ▶ Abandon or create a moratorium on restrictive zoning controls. Don't just 'tweak' the zoning standards. Eliminate them. Make approvals administrative, greatly reducing the time it takes to achieve approval. Do not require parking: because parking needs will change with the introduction of Autonomous Vehicles. Let the developers decide if parking structures will benefit their buyers.
- ▶ Build for all life stages. Similar product can actually fit the entire housing ladder including singles, starter families, established older families, retirees/empty nesters and seniors.

- ▶ Build to a price point that they can afford.

That's it.

If we do that, we:

- ▶ Will see the actual construction of housing in dramatically greater numbers
- ▶ Unfreeze the housing market ladder (the move-up market)
- ▶ Will build much of it for-sale
- ▶ Make housing affordable for households that earn a combined income of \$120,000 to \$170,000 (e.g. middle class).
- ▶ Do it within the existing infrastructure and services-rich neighborhoods of our cities
- ▶ Improve and upgrade our neighborhoods, ingesting them with youth, new amenities and services.

While the latter bullet can be debated, there are just too many examples around the nation where my point is true. Visit the Pearl District in Portland for one such example of the juxtaposition of the old and the new, the 'more dense' of today with the 'less dense' of yesterday. Few would argue with the results.

## Conclusion: Start Planning the Moon Shot

In 1961, President John F. Kennedy told Congress "I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the Earth."

Our Regional Moon Shot starts with a similarly simply stated but technically elusive goal.

We really can balance supply and demand by focusing on this goal.

There is talk and there is action. Now is the time for action. There is a way to build out of the crisis. If we fail to do so, our regional economy will inevitably pay a price by causing economic stagnation or gradually reducing us to a 'boutique' economy that does not fundamentally grow our regional wealth or serve our growing population.

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