



london moeder
advisors

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Mayor Todd Gloria and
San Diego City Council

Re: A Proposal to Create “Missing Middle” Housing

San Diego’s housing shortage has evolved from an affordability dilemma to an economic imperative. The absence of attainable housing choices ultimately presents economic consequences that greatly impact both employees and employers. Employees exiting the region, due principally to the absence of affordable housing choices for their families, is the overarching reason that there has been a severe and persistent downturn in the region’s level of population growth.

Since 2012 there has been an almost exclusive emphasis, (most recently through the Complete Communities program) on creating “infill housing”, resulting mainly in the construction of apartment flats. The City’s policies have been both well-reasoned and welcomed by the building industry.

However, the housing problem cannot be cured by a unilateral focus on infill. There have been no policies that significantly increase the production of family housing. Our overarching concern has been the failure of cities, the County of San Diego, and the State of California to focus legislative policy to either incentivize family housing or to remove the obstacles to this vital housing segment.

Delivering apartments does not accommodate the housing needs of families of middle or moderate income. This market segment requires market rate housing with multiple bedrooms. Those who are presently left out of the market include young families headed by working professionals in the middle of their careers, and young adults, many of whom are public servants.

While the City has long ago run out of “green field” lands, which largely accommodated San Diego’s single family home demand throughout the last century, there is a way to deliver the same type of housing today within our existing neighborhoods.

Proposed Program

We recommend that the City explore the concept of allowing smaller lot configurations so that housing developers may target this middle market/family housing need by offering higher density configurations that are not stacked apartment flats. A similar policy initiative has recently been introduced by LISC San Diego and its coalition partners, including London Moeder, who have formed Homeownership Opportunities for SD (www.homeownershipforsd.org).

Smaller lot configurations may be achieved by providing a ministerial – over the counter – permitting process to allow single-family parcels of 5,000 square feet or larger the opportunity to be subdivided into minimum lot sizes of 1,000 square feet. Reducing the land footprint would permit the development of order-of-magnitude less expensive for-sale family housing.

The acquisition and subdivision of these parcels should not be subject to affordable housing requirements or in-lieu fees, which usually render these projects infeasible. This program should also require a minimum of two bedrooms for each housing unit.

Program Results

The result of implementing this program would be the construction of higher density configurations, including townhomes and rowhomes. The combination of smaller lot size and lower construction costs would result in substantially more housing units at attainable price points for families.

By way of example, LMA recently completed a residential analysis for a property that evaluated single family homes versus townhomes. Larger lot land values were approximately \$450,000 per home. In a townhome configuration the smaller lots were \$270,000 per home (40% lower). Smaller lots resulted in smaller homes and lower sale prices. The average price of a new townhome was \$998,000 compared to a single-family home of \$1.4 million, a 40% decrease.

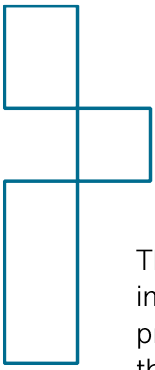
This policy would also result in a fiscal positive through increased property tax revenue to the City because multiple units on parcels that previously accommodated only a single dwelling raises aggregate property values. This increase in revenue to the City could be allocated to future infrastructure improvement projects to support the higher density.

There are many neighborhoods that would benefit from such a program, without a significant impact on the character of the neighborhood or its ability to accommodate the density increase. Perhaps the best way to start is to identify a neighborhood and create a demonstration area. This would provide the opportunity to test the concept, and perhaps to temper opposition.

Such a program would open the door to much more dynamic housing development activity. Architects, planners and developers would engage in highly creative approaches, the result of which would be more housing, mostly targeted for families, more dynamic and contemporary neighborhoods without loss to the traditional neighborhood character.

Conclusion

The denser rowhome and townhome development approaches will achieve sale prices well below those of traditional, large lot single-family homes. This is the very recipe to solve the problem of the absence of housing directed at the “missing middle” (families).



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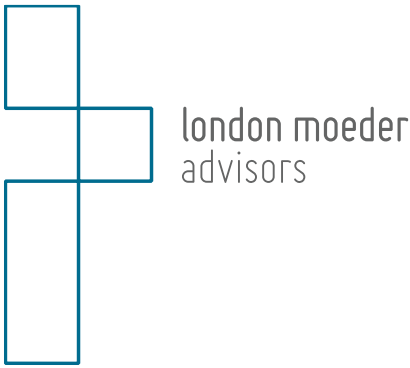
This proposal is a potential cure to what we believe are inevitable, long-term economic negative impacts on our region if we fail to deliver housing to this vital market segment. We believe the proposal by Homeownership Opportunities for SD could dramatically increase the housing stock the city needs the most – middle-income housing – while helping to solve the city's housing affordability crisis. So, we're seeking your consideration and support.

Both of us are available to help craft the details of such a program and to address any questions or concerns about this proposal.

Sincerely,

Gary H. London

Nathan Moeder



Corporate Profile

London Moeder Advisors

REPRESENTATIVE SERVICES

| | | |
|--------------------------------|----------------------|-----------------------|
| Market and Feasibility Studies | Development Services | Litigation Consulting |
| Financial Structuring | Fiscal Impact | Workout Projects |
| Asset Disposition | Strategic Planning | MAI Valuation |
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London Moeder Advisors (formerly The London Group) was formed in 1991 to provide real estate advisory services to a broad range of clientele. The firm principals, Gary London and Nathan Moeder, combine for over 60 years of experience. We have analyzed, packaged and achieved capital for a wide variety of real estate projects. Clients who are actively pursuing, developing and investing in projects have regularly sought our advice and financial analysis capabilities. Our experience ranges from large scale, master planned communities to urban redevelopment projects, spanning all land uses and development issues of all sizes and types. These engagements have been undertaken principally throughout North America and Mexico.

A snapshot of a few of the services we render for both the residential and commercial sectors:

- **Market Analysis** for mixed use, urban and suburban properties. Studies concentrate on market depth for specific products, detailed recommendations for product type, absorption and future competition. It also includes economic overviews and forecasts of the relevant communities.
- **Financial Feasibility Studies** for new projects of multiple types, including condominium, apartment, office, and master-planned communities. Studies incorporate debt and equity needs, sensitivity analyses, rates of return and land valuations.
- **Litigation support/expert witness services** for real estate and financial related issues, including economic damages/losses, valuations, historic market conditions and due diligence. We have extensive deposition, trial, mediation and arbitration experience.
- **Investment studies for firms acquiring or disposing of real estate.** Studies include valuation, repositioning projects and portfolios, economic/real estate forecasts and valuation of partnerships. Often, the commercial studies include the valuation of businesses.
- **Estate Planning services** including valuation of portfolios, development of strategies for disposition or repositioning portfolios, succession planning and advisory services for high net worth individuals. We have also been involved in numerous marriage dissolution assignments where real estate is involved.
- **Fiscal Impact, Job Generation and Economic Multiplier Effect Reports,** traditionally prepared for larger commercial projects and in support of Environmental Impact Reports. We have been retained by both developers and municipalities for these reports. The studies typically relate to the tax revenues and employment impacts of new projects.

The London Group also draws upon the experience of professional relationships in the development, legal services, financial placement fields as well as its own staff. Clients who are actively investigating and investing in apartment projects, retail centers, commercial projects, mixed use developments and large master plans have regularly sought our advice and financial analysis capabilities.

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