Working Paper
Housing Choices and Affordability

Regional Transit-Oriented Development Strategy
April 16, 2015
PREFACE

A series of Working Papers has been prepared for SANDAG as part of its efforts to develop a Regional TOD Strategy for the San Diego Region. The Working Papers focus on issues associated with implementing TODs in the San Diego region, drawing upon the experience and lessons learned from other metropolitan areas in their attempts to address similar issues. The Working Papers address the following topic areas:

- Urban Form, Density and Land Use
- Financing Infrastructure and Community Facilities
- Housing Choices and Affordability
- CEQA Streamlining and Travel Forecasting
- Connections: Travel Options, Mobility Management and Access Enhancements
- Readiness Criteria: Metrics for Transit-Oriented Districts

“TOD” is typically an acronym for “Transit-Oriented Development.” This definition focuses on real estate development projects next to transit stations, often as public/private partnerships; however, this definition is narrow and does not reflect the importance of the relationship between transit stations and the surrounding community.

The Working Papers approach the “D” in TODs as “District,” an area, neighborhood or community that is conveniently accessible to transit. The size of a district will vary by location, topography, community characteristics, the pattern and concentration of residential and employment, and other unique factors. Districts are larger areas where some people are close enough to walk to a station, others are close enough to bike to a station or be dropped off by a friend or family member who is driving, or even use a car-sharing service. Thinking of the district in this larger context enables more opportunities to find sites for various types of development that are feasible – small lot housing and town homes, low-rise and loft housing, flats and, residential towers, or main-street type of commercial, urban flex and campus space, institutional facilities, and taller office buildings – all within mixed-use environments that are walkable. TOD is an important to the San Diego region’s future and is expected to contribute significantly to meeting the projected demand for new housing and employment growth that SANDAG estimates will occur in the future.

The Working Papers are focused on how to implement TODs. They describe the challenges, some of which are not unique to San Diego. They mention examples of how other metropolitan areas around the country are trying to address these challenges and conclude by suggesting some ideas for consideration. The ideas for consideration are meant to stimulate thought, questions, and possible solutions.

The Working Papers are being published prior to a TOD Implementation Forum (January 27 and 28, 2015) that SANDAG is holding to get input that inform the development of SANDAG’s Regional TOD Strategy. As such, the Working Papers are drafts that will be augmented by the input received during the TOD Implementation Forum, and will be used to support the preparation of the Regional TOD Strategy and an agenda for success.
HOUSING CHOICES AND AFFORDABILITY

Introduction

In San Diego, as in many regions around the country, households of all income levels face a series of tradeoffs in selecting where to live. Jobs are dispersed around the region, with many of the major employment centers – such as University Town Center, Torrey Pines, Kearny Mesa, Carlsbad, the I-78 Corridor, and the I-15 corridor – located in the northwestern part of the county. These same areas also have some of the highest home prices in the region. Housing is typically more affordable to the south and east, where the region’s high-frequency transit lines are also concentrated. However, existing transit lines provide limited connectivity to the job centers to the north, making driving to work a necessity for many. Reflecting this mismatch between housing affordability, employment, and transportation accessibility, the average moderate-income family in San Diego County (earning $50,698, or 80 percent of area median income for a three-person household) pays an estimated 55 percent of total household income in combined housing and transportation costs.1 In some parts of the region, the combined cost of housing and transportation would account for 60 percent or more of total income for a household at this income level (Figure 1).

For households of all incomes, transportation is, on average, the second highest cost of living after housing. However, transportation costs vary significantly by location. For example, the typical U.S. household living in an auto-dependent neighborhood spends 25 percent of income on transportation, while households living in neighborhoods where they can easily walk, bicycle, or take transit spend just 9 percent.2 By providing affordable housing within walking distance of high-

---

1 Including 36 percent of income for housing and an additional 19 percent for transportation. U.S. Department of Housing and Urban Development, “Location Affordability Index.”

2 Center for Transit-Oriented Development, Creating Connected Communities: A Guidebook for Improving Transportation Connections for Low- and Moderate-Income Households in Small and Mid-Sized Cities.
quality transit that connects to employment and other daily needs, communities can help households reduce their transportation costs, access jobs, and achieve upward mobility. Providing a range of housing options in transit-oriented districts (TODs) is also key to meeting regional goals for reducing greenhouse gas emissions and increasing transit ridership. As discussed below, low- and moderate-income households account for the majority of transit riders and are much more likely than higher-income households to take transit, especially if they live within a 0.25 to a 0.5 mile of a transit station – although middle- and high-income households that live in TODs may also opt for public transportation if it provides a fast, convenient alternative for accessing job centers or other important destinations. (For example, the Rosslyn-Ballston corridor in Arlington, Virginia, connects clusters of high-end apartments and condominiums to major job centers in Arlington and Washington, D.C.; nearly half of the residents along the corridor commute by transit.)

Ensuring that TODs are affordable to a range of households requires a variety of different strategies depending on the context. Adjusting local land use regulations to allow for more financially feasible building types can help facilitate the development of both market-rate and subsidized housing, and may support the production of lower cost, market-rate units. (For example, reducing parking requirements may result in somewhat discounted unit prices, both because building less parking can help lower development costs and because units with fewer parking spaces often sell or rent at a lower price). However, providing housing that is truly affordable for low- and very-low income households typically requires building new subsidized units near transit, as well as preserving existing subsidized units that are at risk of being converted to market rate. In high-cost communities – for example, along the coast – there is often a need to subsidize moderate-income, workforce housing as well as low- and very-low-income housing. Finally, in places where rents are rising rapidly, there may be a need to prevent displacement of existing low- and moderate-income renters from relatively low-cost market-rate housing.

This White Paper provides an overview of the benefits and challenges associated with providing affordable housing in TODs, discusses recent trends in affordable housing production and preservation in the San Diego region, and describes emerging best practices and tools that regional and local governments are using to promote affordable housing development near transit. The paper concludes with a list of potential strategies that SANDAG could

---

The Importance of Producing & Preserving Affordable Housing Near Transit

Ensuring that low- and moderate-income households can afford to live near transit is critical both for enabling upward mobility and for meeting local and regional goals including reduced greenhouse gas emissions, increased transit ridership, and reinvestment in existing neighborhoods. The benefits of producing and preserving affordable housing near transit include:

- **True affordability**: Providing affordable housing near transit can reduce households’ combined housing and transportation expenses, freeing up income to save for homeownership or to invest in education, job training, health care, and other needs. The savings from living in a TOD are particularly important to low- and moderate-income households, which tend to spend a higher share of their household income on transportation. Good transit connections, particularly to employment opportunities, can result in considerable household savings. For example, a 2008 study found that working poor households (those earnings are less than twice the federal poverty limit) who drove to work spent an average of 8.4 percent of household income on commute expenses, not including other transportation costs. In comparison, working poor households who took transit to work spent 5.8 percent of household income on commuting.

- **Expanding access to jobs, education, and other important destinations**: Transportation access is a significant factor in determining the economic opportunities available to low-income households. Reflecting the auto-oriented nature of many U.S. regions, access to a vehicle is an economic necessity for many households of all income levels – despite the fact that car ownership costs between $6,000 and $12,000 a year on average. However, 26 percent of households earning less than $20,000 a year do not own a car. For these and other households with limited access to a private vehicle, transit access is critical for accessing employment, education, health care, and other daily needs. Several studies have shown a positive relationship between expanded transit access and improved employment outcomes.

- **Supporting regional transit ridership**: Ensuring that low- and moderate-income households have good access to transit options can help stabilize ridership. Low-income households are much more likely than higher-income households to take transit, especially if they live near a transit station. Low- and moderate-income riders also account for the majority of transit riders. A 2007 study found that 65 percent of transit riders across the country report household incomes of less than $50,000 per year, and 35 percent earn less than $25,000 a year.

---

4 Center for Transit-Oriented Development, *Creating Connected Communities: A Guidebook for Improving Transportation Connections for Low- and Moderate-Income Households in Small and Mid-Sized Cities.*


6 AAA, *Your Driving Costs.*

7 Center for Transit-Oriented Development, *Creating Connected Communities: A Guidebook for Improving Transportation Connections for Low- and Moderate-Income Households in Small and Mid-Sized Cities.*


10 American Public Transportation Association, *A Profile of Public Transportation Passenger Demographics and Travel Characteristics.*
• **Meeting vehicle miles traveled and greenhouse gas emission goals:** A recent California study found that low- and moderate-income households (those earning less than 120 percent of area median income) living within 0.5 mile of transit drove 25 to 30 percent less than households at the same income level who lived more than 0.5 mile away. Low- and moderate-income households living within 0.25 mile of transit drove even less, logging 50 to 60 percent fewer vehicle miles than households of the same income levels living more than 0.5 mile from a transit station. In comparison, higher-income households (earning more than 120 percent of area median income) living within 0.25 mile of transit drove nearly twice as much as households that earned less. 11

• **Catalyzing neighborhood reinvestment and TOD:** In neighborhoods with strong transit access but limited market momentum, building new, high-quality affordable housing or acquiring and rehabilitating existing, run-down units can help bring new energy to a neighborhood and overcome negative perceptions about local safety, blight, or quality of life. In Portland’s Pearl District, for example, early affordable housing development adjacent to city’s planned streetcar line helped demonstrate that there was demand for high-intensity housing downtown, catalyzing the transformation of the formerly industrial district into an urban, mixed-use, and ultimately mixed-income neighborhood. More broadly, a number of studies have shown that affordable housing rehabilitation and development is associated with neutral or moderately positive effects on surrounding property values. 12

**Ongoing Challenges**

Despite the benefits described above, ensuring that transit station areas can accommodate a range of household income levels can be challenging. The introduction of new transit service in a neighborhood is often accompanied by increasing local property values and rents. While this can have benefits for home owners and local governments, it may also result in displacement of existing low-income renters who are priced out of market-rate rental units. 13 At the same time, many of the contracts between the federal government and the private owners of subsidized housing units built in the 1960s through 1980s are expiring. In markets with high rents and low vacancy rates, the owners may have an incentive to convert their units to market-rate, reducing the overall supply of affordable units. Studies in other regions have found that a significant percentage of expiring units are located near transit. 14

These challenges are compounded by the high cost of building affordable housing in existing urbanized areas, as well as other challenges related to infill development. A recent study sponsored by California’s state housing agencies found that the average cost of building affordable housing in San Diego is $263,000 per unit (excluding land). While this is slightly lower than the statewide average, it is significantly more expensive than the cost of construction in less densely populated areas such as Sacramento, the Central Valley, and the Inland Empire. Statewide, higher-intensity housing tends to be more expensive to build on a per-unit basis, while projects with underground or podium parking are 6 percent more expensive on average than projects with other types of

---

11 TransForm and California Housing Partnership Corporation, *Why Creating and Preserving Affordable Homes Near Transit Is a Highly Effective Climate Protection Strategy.*
14 Reconnecting America and National Housing Trust, *Preserving Opportunities: Saving Affordable Homes Near Transit.*
parking.\textsuperscript{15} Adding to the high cost of multi-family, infill development, land prices near transit stations are often higher. In some cases, affordable housing developers may not be able to compete with market-rate builders for development sites. Local height and density limits, high parking ratios, and other regulatory requirements can also pose barriers to affordable (as well as market-rate) development near transit.

Finally, recent trends in federal, state, and local government funding have made resources for subsidizing affordable housing more scarce. Low-income housing tax credits are one of the most common sources for affordable housing development in California. Recognizing the importance of transit access for affordable housing, the California Tax Credit Allocation Committee (TCAC) provides additional points for proximity to fixed-guideway transit in the competitive scoring process through which low-income housing tax credits are awarded. However, the supply of tax credits is limited and the allocation process is highly competitive. Moreover, tax credits do not fully fund development; in order to make projects possible, affordable housing developers must typically cobble together funding from a number of different sources. Historically, affordable housing developers in the San Diego region and other parts of California relied heavily on funding from the redevelopment agencies’ Low and Moderate Income Housing Funds. Proposition 1C, a bond measure passed by voters in 2006, also provided significant funding for affordable housing development. However, Proposition 1C funding is now largely committed, and the state dissolved redevelopment in 2011. Adding to the challenge, recent state court rulings have disallowed the use of inclusionary zoning\textsuperscript{16} for rental housing, and are calling into question the long-term viability of requiring inclusionary units for for-sale housing as well.

**Affordable Housing Development and Preservation in the San Diego Region**

Figure 3 shows the total number of housing units that were newly permitted, acquired and rehabilitated, or preserved between 2003 and 2011, by jurisdiction and income level. Between 2003 and 2011, 85,800 permits were issued for new housing units in the San Diego region, of which deed-restricted housing affordable to very-low- and low-income households accounted for just under 10,000 units (about 12 percent), while moderate-income housing accounted for another 4,000 units (5 percent).\textsuperscript{17} In comparison, a recent study estimated that there is a 79,800-unit shortfall of housing affordable to extremely-low-income renters (those earning 30 percent of area median income) in San Diego County.\textsuperscript{18} While deed-restricted housing is a critical component of the affordable housing supply, it is not the only source; over time, new market-rate development may help reduce prices through a process known as “filtering,” whereby older, lower-quality housing falls in price due to reduced demand from higher-income households who can afford to purchase new units. Given the magnitude of the housing shortfall, however, subsidized as well as market-rate development will be required to make a significant difference in affordability, especially for the region’s lowest-income households.

\textsuperscript{15} California Tax Credit Allocation Committee et al., *Affordable Housing Cost Study: Analysis of the Factors That Influence the Cost of Building Multi-Family Affordable Housing in California.*

\textsuperscript{16} Inclusionary zoning requires market-rate developers to set aside a certain percentage of units as affordable units for low- or moderate-income households, or pay an in-lieu fee.

\textsuperscript{17} SANDAG, *Regional Housing Progress Report 2003-2011.*

\textsuperscript{18} California Housing Partnership Corporation, *How California’s Housing Market Is Failing to Meet the Needs of Low-Income Families.*
### Figure 3. Affordable Housing Development Production and Preservation in the San Diego Region, 2003-2011

<table>
<thead>
<tr>
<th>City</th>
<th>Very Low Income</th>
<th>Low Income</th>
<th>Moderate</th>
<th>Total, All Incomes</th>
<th>% of Total Low and Very Low</th>
<th>% of Total, All Incomes</th>
<th>Acq/Rehab*</th>
<th>Preserved/At-Risk**</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>City of San Diego</td>
<td>2,942</td>
<td>1,669</td>
<td>329</td>
<td>35,915</td>
<td>46%</td>
<td>42%</td>
<td>2,635</td>
<td>1,261</td>
<td>3,896</td>
<td>74%</td>
</tr>
<tr>
<td>Carlsbad</td>
<td>231</td>
<td>841</td>
<td>418</td>
<td>6,129</td>
<td>11%</td>
<td>7%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Chula Vista</td>
<td>227</td>
<td>742</td>
<td>467</td>
<td>11,993</td>
<td>10%</td>
<td>14%</td>
<td>13</td>
<td>272</td>
<td>285</td>
<td>5%</td>
</tr>
<tr>
<td>San Marcos</td>
<td>330</td>
<td>374</td>
<td>650</td>
<td>4,358</td>
<td>7%</td>
<td>5%</td>
<td>32</td>
<td>0</td>
<td>32</td>
<td>1%</td>
</tr>
<tr>
<td>Unincorporated County</td>
<td>117</td>
<td>571</td>
<td>721</td>
<td>14,220</td>
<td>7%</td>
<td>17%</td>
<td>356</td>
<td>0</td>
<td>356</td>
<td>7%</td>
</tr>
<tr>
<td>Oceanside</td>
<td>367</td>
<td>209</td>
<td>819</td>
<td>3,511</td>
<td>6%</td>
<td>4%</td>
<td>284</td>
<td>0</td>
<td>284</td>
<td>5%</td>
</tr>
<tr>
<td>Escondido</td>
<td>169</td>
<td>136</td>
<td>20</td>
<td>2,046</td>
<td>3%</td>
<td>2%</td>
<td>19</td>
<td>130</td>
<td>149</td>
<td>3%</td>
</tr>
<tr>
<td>Poway</td>
<td>230</td>
<td>63</td>
<td>28</td>
<td>636</td>
<td>3%</td>
<td>1%</td>
<td>104</td>
<td>0</td>
<td>104</td>
<td>2%</td>
</tr>
<tr>
<td>San Diego</td>
<td>90</td>
<td>94</td>
<td>64</td>
<td>1,632</td>
<td>2%</td>
<td>2%</td>
<td>60</td>
<td>0</td>
<td>60</td>
<td>1%</td>
</tr>
<tr>
<td>Lemon Grove</td>
<td>59</td>
<td>75</td>
<td>34</td>
<td>169</td>
<td>1%</td>
<td>0%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Encinitas</td>
<td>65</td>
<td>38</td>
<td>19</td>
<td>1,116</td>
<td>1%</td>
<td>1%</td>
<td>16</td>
<td>0</td>
<td>16</td>
<td>0%</td>
</tr>
<tr>
<td>National City</td>
<td>60</td>
<td>35</td>
<td>170</td>
<td>971</td>
<td>1%</td>
<td>1%</td>
<td>26</td>
<td>0</td>
<td>26</td>
<td>0%</td>
</tr>
<tr>
<td>El Cajon</td>
<td>8</td>
<td>59</td>
<td>200</td>
<td>372</td>
<td>1%</td>
<td>0%</td>
<td>6</td>
<td>0</td>
<td>6</td>
<td>0%</td>
</tr>
<tr>
<td>Vista</td>
<td>32</td>
<td>33</td>
<td>3</td>
<td>1,013</td>
<td>1%</td>
<td>1%</td>
<td>33</td>
<td>0</td>
<td>33</td>
<td>1%</td>
</tr>
<tr>
<td>Coronado</td>
<td>24</td>
<td>17</td>
<td>1</td>
<td>375</td>
<td>0%</td>
<td>0%</td>
<td>33</td>
<td>0</td>
<td>33</td>
<td>1%</td>
</tr>
<tr>
<td>La Mesa</td>
<td>32</td>
<td>0</td>
<td>48</td>
<td>1,023</td>
<td>0%</td>
<td>1%</td>
<td>30</td>
<td>0</td>
<td>30</td>
<td>1%</td>
</tr>
<tr>
<td>Imperial Beach</td>
<td>7</td>
<td>7</td>
<td>10</td>
<td>128</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Solana Beach</td>
<td>0</td>
<td>9</td>
<td>0</td>
<td>138</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Del Mar</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>34</td>
<td>0%</td>
<td>0%</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Total, Region</td>
<td>4,990</td>
<td>4,972</td>
<td>4,001</td>
<td>85,779</td>
<td>100%</td>
<td>100%</td>
<td>3,614</td>
<td>1,663</td>
<td>5,277</td>
<td>100%</td>
</tr>
</tbody>
</table>

*The number of housing units acquired, rehabilitated, and deed-restricted for very-low- and low-income households.

**The number of preserved units "at-risk" of conversion to market rate uses that were deed-restricted to very-low- and low-income households.

SANDAG does not currently track how many of the affordable units were located in TODs. Overall, however, the share of all new housing units built in smart growth opportunity areas has been increasing over time, rising from 16 percent in 2006 to 33 percent in 2013. The City of San Diego accounted for nearly half of all affordable housing development and three-quarters of acquisition/rehabilitation and preservation of at-risk units. Significant affordable housing development has also occurred in Carlsbad, Chula Vista, San Marcos, Oceanside, Escondido, and Poway. With the exception of Poway, all of these jurisdictions have some fixed-guideway transit in place, although the Sprinter and Coaster lines that serve Oceanside, Escondido, Carlsbad, and San Marcos run relatively low-frequency service with headways every 30 to 60 minutes or longer.

Best Practices and Emerging Tools

Regional agencies and local governments are beginning to explore new tools for facilitating the development and preservation of affordable housing near transit. Non-profit and for-profit developers build and operate most affordable housing today, while the federal and state governments have historically provided the majority of funding. However, there are significant opportunities for regional and local governments to support affordable housing as part of TOD through policy and planning and by focusing resources on priority areas.

This section provides a brief discussion of some emerging tools; it is intended to highlight best practices, rather than provide a comprehensive overview of the topic. As discussed below, SANDAG and local jurisdictions in the San Diego region are already implementing or actively exploring many of these tools.

Regional Governments

Metropolitan planning organizations (MPOs) in California are charged with developing regional housing and transportation plans and managing state and federal funding for transportation infrastructure. In addition, MPOs can often serve as a forum for inter-jurisdictional collaboration and information exchange. These roles and responsibilities allow MPOs to play a significant part in encouraging and incentivizing affordable housing as part of transit-oriented development. Best practice tools that regional agencies in California and around the country have used to encourage and incentivize affordable TOD include:

- **Targeting regional housing growth to jurisdictions with TOD and infill opportunities:** Under state law, MPOs are required to conduct Regional Housing Needs Allocation (RHNA) plans every five years. The RHNA allocates projected housing growth in four income categories (very low, low, moderate, and above moderate) among each jurisdiction in the region, and must be coordinated with the Regional Transportation Plan and Sustainable Communities Strategy. By focusing housing allocations in jurisdictions with transit service and infill development opportunities, MPOs can help direct local and regional housing resources to desired locations.

---

• **Targeting transportation funding to reward and incentivize affordable housing near transit:** MPOs can help reward jurisdictions that accept higher RHNA allocations and succeed in producing affordable housing considering these factors in awarding competitive transportation dollars. For example, the San Francisco Bay Area Metropolitan Transportation Commission’s (MTC’s) One Bay Area Grant Program, which distributes federal transportation dollars for station area planning, bicycle and pedestrian improvements, and other infrastructure needs, allocates its funding to county congestion management agencies based half on population and half on housing production and RHNA share.\(^{20}\) MTC also requires local governments that receive planning grants through the program to include affordable housing strategies as part of their plans.

• **Convening stakeholders and providing technical assistance to local governments:** MPOs can work with affordable housing developers, housing authorities, local governments, foundations, transit agencies, and other stakeholders to coordinate regional affordable housing strategies. For example, as part of the process for creating its Growing Transit Communities Strategy, a plan for making the most of future rapid transit investments by locating housing, jobs, and services near transit, the Puget Sound Regional Council (PSRC) convened an Affordable Housing Steering Committee. The committee recommended a number of strategies for promoting affordability near transit, including reviewing the effectiveness of existing tax-increment financing (TIF) tools in Washington state,\(^{21}\) beginning the process of creating a structured fund for transit-oriented affordable housing development (discussed in Figure 5), working with public agencies to prioritize the use of public surplus land for affordable housing, and conducting a regional analysis of fair housing and equity issues.\(^{22}\) PSRC also created a Housing Innovations Program toolkit that provides local governments with resources to support affordable housing and smart growth.

---

\(^{20}\) Metropolitan Transportation Commission, “OneBayArea Grant Program.”

\(^{21}\) The State of Washington’s constitution does not permit traditional tax-increment financing that diverts state property tax revenue; however, the state legislature has authorized several types of “TIF-lite” districts that can capture increases in local property tax revenues.

\(^{22}\) Puget Sound Regional Council, “Growing Transit Communities: Affordable Housing Strategy.”

---

**Figure 4. Structured Loan Funds for Transit-Oriented Affordable Housing**

A structured fund pools money from different investors with varying risk and return profiles, in order to fund projects with a specific, dedicated purpose. By pooling money from different investors – for example, grant funding from public sector entities, program-related investments from foundations, community development finance institutions that make below-market rate loans, and commercial banks working to meet their investments under the Community Reinvestment Act – fund managers can blend interest rates and provide lower-cost loans with higher loan-to-value ratios. A number of structured funds related to affordable housing are operating around the country, including at least two that are dedicated to providing loans for land acquisition and development near transit: the Denver TOD Fund and the Transit-Oriented Affordable Housing Fund (TOAH) in the Bay Area. The Metropolitan Transportation Commission, the Bay Area’s metropolitan planning organization, contributed $10 million in seed money to help start TOAH by swapping federal transportation funds for a county congestion management agency’s discretionary funds.

The San Diego Housing Commission and Civic San Diego are currently exploring the potential to create a pooled loan fund to finance affordable housing near transit, and are planning to complete a business plan in 2015 and start originating loans in 2016.

For more information on structured loan funds, see U.S. Environmental Protection Agency, Office of Sustainable Communities Smart Growth Program, Infrastructure Financing Options for Transit-Oriented Development.
SANDAG has already implemented many of the tools discussed above. In its most recent RHNA Plan, SANDAG distributed housing growth using a model that considered proximity to job centers, travel times, and commuting choices, and targeted more growth to jurisdictions with greater capacity under existing land use plans. Board Policy 33, which SANDAG adopted in 2006, rewards jurisdictions that take on a higher share of the regional housing need by requiring that 25 percent of the total points available for certain competitive funding programs be allocated based on four factors related to the provision of affordable housing. The policy applies to the TransNet Smart Growth Incentive Program (SGIP) and Active Transportation Programs, state Transportation Development Act (TDA) Article 3 funding, and the federal Transportation Enhancements Program (which was replaced by the Transportation Alternatives Program under MAP-21 in 2012).

As part of the implementation of Board Policy 33, SANDAG also collects annual progress reports from each jurisdiction on the number of building permits issued for new very-low, low-, moderate-, and above-moderate-income housing units; the number of existing units acquired, rehabilitated, and deed-restricted for very-low- and low-income households; and the number of preserved units at-risk of conversion to market rate (as shown in Figure 3, above).

Finally, SANDAG tracks specific issues related to affordable housing and participates in regional convenings. For example, the agency submitted a comment letter on the draft guidelines for the state’s new Affordable Housing and Sustainable Communities program (discussed below), and staff attends regular meetings of the San Diego Housing Federation. The agency has written letters to support grant applications for affordable housing projects that are located in transit-oriented areas and meet the Smart Growth Opportunity area density targets. SANDAG also convenes regular meetings of planning directors and community-benefit organizations, at which affordable housing-related issues are discussed on an as-needed basis.

Local Governments

Cities and counties in California can support affordable housing development and preservation efforts, and try to focus that housing in TODs, through supportive land use planning, development standards, and infrastructure investments, as well as through the strategic disposition of publicly owned land. Since the dissolution of

---

23 These include the share of RHNA allocated to the jurisdiction, the jurisdiction’s share of the cumulative total of lower income units produced in the region, the total number of affordable housing units located in the jurisdiction, and the percent of low-income households. In addition, jurisdictions must have their Housing Elements certified complete by the California Department of Housing and Community Development and submit an annual Housing Element Progress report to SANDAG in order to be eligible for funding.

redevelopment agencies in 2011, local governments are also increasingly looking for new, local funding sources to address affordable housing needs in their communities.

Many jurisdictions also have local public housing agencies that own and operate public housing (typically in partnership with the federal government) and administer the federal Housing Choice Voucher Program. These agencies can be key partners in supporting affordable TOD.

- **Prioritizing the preservation and development of affordable housing near transit:** Local governments are required by state law to adopt a Housing Element as part of the General Plan that identifies sufficient sites to meet existing and projected housing needs, including the jurisdiction’s share of the RHNA. In addition, many cities and counties are required to submit a Consolidated Plan\(^{25}\) and/or Public Housing Agency Plan\(^{26}\) in order to qualify for federal housing funding. By including language in these plans about the importance of prioritizing affordable housing in TODs, cities can set the stage of directing future federal, state, and local resources to these areas.

- **Supportive land use plans:** Station area plans can facilitate both market-rate and affordable transit-oriented development by providing developers with guidance on the type of development that is likely to be approved, and by establishing a framework for implementing public and private infrastructure and public realm improvements. Land use plans can also facilitate housing development by identifying underutilized, obsolete light industrial or commercial properties near transit that might be appropriate for conversion to residential uses. For example, the City of Lemon Grove’s Downtown Village Specific Plan laid the groundwork for a new pedestrian plaza and high-intensity affordable housing development, which replaced an aging trailer park and scattered single-story commercial buildings adjacent to the Lemon Grove Trolley Depot. The Plan established new, higher intensity land use designations near the station and proposed a pedestrian promenade to link new development with the station and downtown (see case study, below).

---

\(^{25}\) Required for cities, urban counties, and states that receive federal block grant funds from the Community Development Block Grant, the HOME Investment Partnership, the Emergency Solutions Grant, and the Housing Opportunities for Persons with AIDS programs

\(^{26}\) Required for local public housing agencies to receive funding from HUD.
REGIONAL TOD STRATEGY

- **Flexible development standards, including parking requirements**: Local governments can help facilitate affordable housing development in TODs by providing flexibility on development standards. For example, zoning codes can exempt affordable development from ground floor retail requirements, reduce parkingminimums, and allow different uses to share parking spaces. Reducing parking minimums may be particularly appropriate for affordable housing located near transit given the high rates of transit ridership among low-income households who live near transit. Figure 7 provides some examples of parking policies that cities around the country have implemented in order to facilitate affordable housing development. Cities can work with affordable housing developers to further reduce car dependency and demand for parking by providing residents with free transit passes, including parking spaces dedicated to car sharing, or implementing other transportation demand management strategies. (Community benefits program, a type of zoning program allows developers to build at increased densities or heights in return for providing community benefits, are discussed below.)

- **Tracking units at-risk of conversion to market-rate**: By building an inventory of subsidized affordable housing and tracking ownership and contract expiration dates, local governments can be prepared to work with property owners, local affordable housing developers, and local and state funders when properties are at risk of being demolished or converted to market-rate rents.  

---

**Figure 6. The San Diego Housing Commission’s Three-Year Work Plan to Facilitate Transit-Oriented Affordable Housing Development**

In 2011, the San Diego Housing Commission (SDHC) – the public housing agency for the City of San Diego – adopted a three-year work plan to facilitate the completion of affordable housing development near transit. SDHC’s decision to prioritize TOD stemmed from the agency’s interest in expanding its portfolio by favoring denser development in areas served by transit but with little existing affordable housing, and in developing publicly owned land through agreements with partner agencies. Although higher-intensity development near transit can be more expensive to build on a per-square-foot basis, building on low- or no-cost, publicly owned land can significantly reduce overall project costs. The agency also saw advantages in building larger, higher-density projects because projects with more units can be more cost-effective (on a per unit basis) to manage over time. Finally, by locating affordable homes near transit, the agency saw an opportunity to help better connect residents to employment and workforce development opportunities.

The work plan called for the Housing Commission to pursue transit-oriented sites within the city for affordable housing development, work with regional partners to strengthen coordination of housing resources, and increase linkages between affordable housing and employment access and workforce development resources. By the end of the three-year timeframe, SDHC had developed several of the sites identified in the work plan, as well as a number of additional sites that met the requirements for TOD outlined in the plan.

SDHC is now in the process of drafting a new three-year work plan. The new plan will include an emphasis on identifying new funding sources and further improving collaboration with the San Diego Metropolitan Transit Service and Civic San Diego, including identifying additional publicly owned sites near transit for new development, and working to create a pooled investment fund to finance affordable housing near transit (discussed in Figure 4).

Sources: Debbie Ruane, Senior Vice President, Real Estate Division, San Diego Housing Commission; LeSar Development Consultants. Three-Year Work Plan to Facilitate Transit-Oriented Affordable Housing Development: July 1, 2011-June 30, 2014.

---

San Diego Association of Governments (SANDAG)

- **Strategic public land disposition**: Many cities, counties, and other local government agencies have significant land holdings, which may include some surplus properties that will become available for new development over time. For example, transit agencies around the country are working with private developers to negotiate “joint development” agreements, which often involve the sale or ground lease of publicly owned land or air rights for specific types of development. In California, many redevelopment agencies acquired land for economic development or affordable housing development purposes; Successor Agencies are now required to inventory and create long-term disposition and management plans for these properties. Some of these properties may present opportunities to build new affordable housing near transit, either in a stand-alone project or as a required percentage of a larger market-rate development.

**Figure 7. Example Parking Policies for Affordable Housing**

<table>
<thead>
<tr>
<th>Strategy</th>
<th>City, State</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduced Parking Minimum for Affordable Housing Units</td>
<td>Los Angeles, CA</td>
<td>Up to 50% reduction in parking for affordable housing units</td>
</tr>
<tr>
<td></td>
<td>San Leandro, CA</td>
<td>25% parking reduction for affordable housing units</td>
</tr>
<tr>
<td></td>
<td>Santa Barbara, CA</td>
<td>1 space per dwelling unit for affordable housing parking maximum</td>
</tr>
<tr>
<td></td>
<td>Pasadena, CA</td>
<td>25% parking reduction for affordable housing units</td>
</tr>
<tr>
<td></td>
<td>Boulder, CO</td>
<td>Reduction in parking minimum for affordable housing based on site</td>
</tr>
<tr>
<td></td>
<td>Denver, CO</td>
<td>25% parking reduction for affordable housing units</td>
</tr>
<tr>
<td></td>
<td>Eugene, OR</td>
<td>0.67 spaces per affordable housing habitable room or 3 spaces total for dwelling unit, whichever is greater based on total available units</td>
</tr>
<tr>
<td>Reduced Parking Minimum for Senior Housing</td>
<td>Berkeley, CA</td>
<td>75% parking reduction for senior or disabled living facility</td>
</tr>
<tr>
<td></td>
<td>San Leandro, CA</td>
<td>50% parking reduction for senior or disabled living facility</td>
</tr>
<tr>
<td>Reduced Parking Minimum for Affordable Housing in Proximity to Transit</td>
<td>Los Angeles, CA</td>
<td>Reduced parking minimum to 1 parking space per unit, for a project located with 1,500 feet of transit and having less than 3 habitable rooms per unit</td>
</tr>
<tr>
<td></td>
<td>Portland, OR</td>
<td>No parking minimums for sites within 500 feet of transit service that has less than 20-minute headways</td>
</tr>
<tr>
<td></td>
<td>San Leandro, CA</td>
<td>Additional parking reductions for affordable housing and/or senior/disable living dwelling units near transit</td>
</tr>
<tr>
<td></td>
<td>Santa Clara, CA</td>
<td>25% parking reduction for affordable housing units for developments near transit stations, containing mixed uses, or participating in a TDM plan</td>
</tr>
<tr>
<td></td>
<td>Seattle, WA</td>
<td>20% reduction in parking minimums if development is located within 80 feet of a transit station</td>
</tr>
<tr>
<td>Reduced Parking Minimum for Affordable Housing by Specific Location</td>
<td>Seattle, WA</td>
<td>Parking requirement reduced in urban areas</td>
</tr>
<tr>
<td></td>
<td>Pasadena, CA</td>
<td>Alternative-parking requirement for all developments that contain affordable housing units located in Parking Benefit Districts</td>
</tr>
<tr>
<td>Parking Maximum for Affordable Housing</td>
<td>Seattle, WA</td>
<td>Parking maximum of 1 parking space per 2 affordable single-family dwelling units</td>
</tr>
</tbody>
</table>


---

It is important to note that federal statute specifically defines which joint development projects are eligible for public funding. When transit agencies participate in joint development using land purchased as part of a federally funded transit project, or improvements are being built as part of the development using federal funds, the transit agency must meet certain statutory requirements and must follow the Federal Transit Administration’s joint development guidance.
• **Exploring new local funding mechanisms:** Local governments are increasingly looking for new funding sources for affordable housing development and preservation. Some emerging funding tools include:

  o **Affordable housing impact fees:** Development impact fees are a one-time charge to new development imposed under California’s Mitigation Fee Act. As required by the Mitigation Fee Act (as well as by state and federal court rulings29), the fees must be adopted based on findings of a “nexus” (or reasonable relationship) between the development paying the fee, the size of the fee, and the use of fee revenues. Local governments in California have charged impact fees to mitigate impacts on sewer, water, parks, schools, and other services for decades. Some cities and counties have also begun to charge impact fees to mitigate the impacts of new, market-rate housing and commercial development on demand for affordable housing. For example, the City of San Diego has a long-standing affordable housing impact fee on commercial development, known as a “linkage fee.”30 In the last several years, as the state courts have begun to restrict the use of inclusionary zoning, interest in implementing affordable housing impact fees as an alternative means of producing affordable housing has increased. Most notably, the twenty-one jurisdictions in San Mateo County are currently collaborating on a “Grand Nexus Study” that will establish the basis for all of the jurisdictions to enact their own fees. This innovative regional approach is intended to increase the overall funding available for affordable housing in the county, while reducing the incentive for jurisdictions to compete for new development by setting lower impact fees than their neighbors.

  o **Community benefits programs:** A community benefits program (also sometimes known as a public benefits program, density incentive program, or density bonus program) allows developers to build at increased densities or heights over a base amount, in return for providing community benefits, often including affordable housing. The State Density Bonus Law requires local governments to offer increased densities and reduced parking requirements in return for providing affordable housing as part of a development project, but some cities are implementing alternative programs that provide a different set of incentives in return for a range of community benefits. For example, the City of San Diego has a community benefit program in the Downtown Community Plan Area that allows developers to purchase bonus floor area ration (FAR), and is considering the creation of a similar program in Uptown. Revenues from the Downtown FAR Bonus Payment Program are used to fund parks and local infrastructure projects.31 Other cities around the state, such as the City of Santa Monica, have implemented programs that allow increased height and intensity in exchanged for affordable housing and/or other community benefits. Community benefits programs must be carefully structured to balance flexibility for developers and the city, provide desired types of developments and benefit, and conform to state legal requirements.

---

30 San Diego’s linkage fee was initiated in 1990, and cut in half in 1996 because of an economic downturn. The fee had not been raised since until December 2013, when the San Diego City Council voted to increase it significantly; however, after opponents collected enough signatures to put the increase on the ballot, the City Council rescinded the increase before reaching a compromise in October 2014 that raised the fee for office, hotel, and retail, but not for research and development, manufacturing, or warehouse space. Source: Horn, “Linkage Fee Hike Approved by Council.”
31 Developers using the FAR Bonus Payment Program may also receive bonus densities for providing affordable housing under the State Density Bonus Program.
Programs should also take into account local market conditions; in some places, increased density (over and above the density already permitted by local zoning) may be of limited value to developers. However, if designed correctly, these programs offer a potential opportunity for leveraging new market-rate development to expand affordable housing.

- **Enhanced Infrastructure Financing Districts (EIFDs):** With the dissolution of redevelopment in 2011, local governments began considering infrastructure financing districts (IFDs) as an alternative tool for financing local infrastructure and economic development needs. Like redevelopment tax-increment financing, IFDs allow local governments to capture new property tax revenues (the “increment”) to pay for needed improvements. However, under the original state law, IFD revenue could not be used to pay for affordable housing development. In 2014, the state passed new legislation creating “enhanced” IFDs (EIFDs) that, among other changes, allow the tool to be used to pay for the development of affordable housing. Unlike redevelopment agencies, EIFDs are not required to set aside funding for affordable housing. However, the new tool presents a potential new funding source that local governments could use to help pay for affordable housing, as well as for infrastructure improvements needed to support TOD. Because the tool is new, additional research and education will be required to help local governments with implementation.32

---

**Case Study: Citronica One and Two in Lemon Grove**

Citronica One and Two provide a total of 136 units of affordable housing for seniors and families, located adjacent to the Lemon Grove Trolley Depot. Built by Hitzke Development and completed in 2013 and 2014, respectively, the two projects replaced an aging trailer park and scattered single-story commercial buildings with new LEED-certified, mixed-use development. A new pedestrian promenade, funded in part by SANDAG’s SGIP, connects the Citronica buildings to the Trolley Station. Together, the new affordable housing development and the promenade create a gateway monument that welcomes visitors to the City of Lemon Grove and has helped catalyze new market-rate development and economic activity around the Trolley station.

The City of Lemon Grove laid the groundwork for the Citronica projects in 2005 by adopting a new Downtown Specific Plan that envisioned high-intensity, mixed-use development surrounding the Trolley station and a landscaped pedestrian promenade to integrate the transit station with Broadway, the city’s main retail corridor. The Plan also created three new Transit Mixed Use zoning districts immediately adjacent to the station, which

---

allowed for maximum building heights between 3 and 7 stories (45 to 85 feet), specified minimum residential densities, and allowed for reduced parking ratios for mixed-use buildings. For Citronica One, the city originally approved a plan that would have required two levels of subterranean parking for 56 units of affordable housing for family and youth. However, after raising money from a variety of sources – including the federal and state Low-Income Housing Tax Credit program, the state Mental Health Services Act Housing Program, and the Lemon Grove Redevelopment Agency – Hitzke Development faced a funding gap of $1.5 million out of the estimated $16 million required to build the project. In order to make the project feasible, the City Council revisited the entitlements and approved a revised development plan that included just 56 structured parking spaces. Citronica Two, which includes 80 units of affordable senior housing, was later entitled with half a space of parking per unit. Both projects consist of five-story, wood-frame buildings over one level of subterranean parking. According to the developer, even with the significantly reduced parking ratios, neither of the parking garages are used to full capacity.

The city contributed to the success of the district by implementing the Main Street Promenade envisioned in the Plan. The project involved closing a segment of Main Street located to the west of the Trolley station, which had provided street parking for Trolley riders but was little used and posed a significant barrier – involving an eight-foot grade change – between the Citronica buildings and the station. The project created a level linear park with updated landscaping, public art, and a play area. All existing street parking spaces were removed, and a kiss-and-ride was created for drop-off and pick-up. As part of the project, the City also reconfigured the intersection of Main Street and Broadway to provide safer access for riders transferring from a nearby bus stop to the Trolley. Funding sources for the $5 million project included $1.9 million from SGIP and $2.6 million from the state’s Infill Infrastructure Grant program, with the remainder paid for by proceeds from redevelopment.

In addition to providing new affordable housing and facilitating easier pedestrian access to transit, the Citronica developments and Main Street Promenade have been credited with helping to make the district more attractive for new businesses and developers. A market-rate developer, CityMark Development, is assembling land adjacent to Citronica Two for an 82-unit, market-rate, multi-family development project. The project benefits from the improved pedestrian infrastructure created as part of the Main Street Promenade, as well as a sewer upgrade that Hitzke Development completed for the Citronica projects. In addition, several new retailers have recently opened adjacent to the Citronica projects, including a new shoe store, tool store, and international food market.

**Ideas for Consideration**

As discussed above, SANDAG and many local jurisdictions throughout the region are already taking significant actions to encourage and reward affordable housing production and preservation in TODs. The “Ideas for Consideration” are provided as a starting point for developing recommendations as part of SANDAG’s Regional TOD Strategy. The “Ideas for Consideration” will continue to be refined, added to, and further evaluated.

- Consider how future transit investments can improve connections between affordable housing and the region’s major employment centers in establishing investment priorities.

33 City of Lemon Grove, *Downtown Village Specific Plan.*
34 Hitzke, President, Hitzke Development.
36 City of Lemon Grove, “Main Street Promenade Project Funding.”
37 Mitchell, City Manager, City of Lemon Grove.
• Continue to monitor the development of the Affordable Housing and Sustainable Communities Program to ensure that cap-and-trade dollars are used to support implementation of SANDAG’s Regional Transportation Plan and Sustainable Communities Strategy. As the program begins issuing calls for projects, support applications that are in conformance with regional plans.

• Continue monitoring the San Diego Housing Commission and Civic San Diego’s efforts to create a pooled loan fund to finance affordable housing near transit, and determine whether there are opportunities for SANDAG to participate in the formation of the fund (whether with financial resources, technical assistance, or other forms of support).

• Review Board Policy 33 to determine whether discretionary federal transportation programs created under MAP-21, such as the Transportation Alternatives Program, should be subject to the policy.

• Provide technical assistance to local governments around emerging tools for funding local affordable housing, such as impact fees, community benefits policies, and Enhanced Infrastructure Financing Districts. Convene local governments to explore whether there are opportunities for regional coordination in implementing these tools.

• Consider requiring recipients of TransNet SGIP Planning Grants to study affordable housing issues and/or include affordable housing strategies in their plans.

• Work with transit agencies and other local, public land owners to identify opportunities to repurpose underutilized or surplus land near transit for affordable housing development or other community development purposes.

• Expand the City of San Diego’s Affordable Housing Parking Demand Study to document and evaluate actual parking demand of existing affordable and market rate housing projects within 0.25 mile of transit stations in the region, with recommendations for parking ratios based on demonstrated demand in various contexts.
Bibliography


Ruane, Debbie. Senior Vice President, Real Estate Division, San Diego Housing Commission. Interview by Flavio Coppola, January 6, 2015.


REGIONAL TOD STRATEGY


