Blue Sky CONSULTING GROUP

COMPREHENSIVE NEW CONSTRUCTION COST STUDY

AN ANALYSIS OF THE FACTORS CONTRIBUTING TO INCREASES IN DEVELOPMENT COSTS AND HOME PRICES IN SAN DIEGO COUNTY

Revised September 4, 2024

Prepared by

The Blue Sky Consulting Group

For

County of San Diego

Contents

1 ACKNOWLEDGEMENTS

This report was prepared by James Paci, Shawn Blosser and Matthew Newman from the Blue Sky Consulting Group. Staff from the San Diego County Planning & Development Services Department provided valuable insights and facilitated the collection of County data sources upon which we relied.

2 EXECUTIVE SUMMARY

In 2021, the San Diego County Board of Supervisors (Board) directed County staff to conduct a comprehensive New Construction Cost Study (the "Study") because of high and rapidly rising housing costs in the San Diego region and across the state.[1]

Many previous studies have addressed the topic of high housing costs. The findings across these studies point to several causes, including higher construction costs, higher permit and impact fees, and state and local land use laws and regulations that act to restrict supply and slow the development process.[2]

The decline in housing affordability is not a trend specific to the County. Rather, in desirable coastal job centers across the United States, increases in the housing supply have not kept pace with increases in demand for new housing. And, while San Diego may face a larger challenge than other regions in bringing down housing costs, state and local governments across the nation are grappling with this same issue.

This report provides recommendations for ways that the county can improve affordability and reduce the cost of housing. Some of these efforts would require additional direction from the Board of Supervisors and require additional resources such as additional staff, one-time funding, and ongoing costs in future years. The recommendations and conclusions in the reports reflect data gathered through 2023. As such, the final report reflects a snapshot in time based on conditions, data, and policies in place during 2023. It does not account for developments or policy changes occurring after the study's completion in 2024. Notably, the study does not include an assessment of CEQA reforms enacted as part of the Governor's Budget Package, signed into law in June 2025.

2.1 Findings

The analysis presented in this Study shows that – across the state as well as within San Diego County – costs for construction labor and materials have increased significantly during the 2013 – 2023 period (the Study period), and that these increases have far outpaced inflation, generally. However, costs for construction labor and materials as well as costs incurred by developers for things such as building permits and interest payments to finance construction do not fully explain the rapid increase in new home prices and apartment rents. Instead, significant increases in the value of land suitable for residential construction is the most significant factor driving new home prices in the region. At the same time, the number of new housing units in unincorporated San Diego County has not kept pace with demand, while the time required to approve new building permit applications has increased.

2.1.1 Increases in Construction Costs

An analysis of trends in construction costs during the Study period shows that construction cost inflation in the County exceeded the average rate nationwide, with costs increasing 62% in San Diego compared to 52% nationally.[3] Materials price increases are due largely to new tariffs and supply chain disruptions

[1] *Transformative Housing Solutions That Advance Equity, Sustainability, and Affordability for All* County of San Diego Board of Supervisors (August 31, 2021).

[2] This report builds on several efforts recently completed or currently underway, including the 2023 CAO report entitled "Options for Removing Barriers to Housing," A report on the feasibility of inclusionary housing completed in January 2023, and a 2018 CAO report entitled "Options to Increase Housing Affordability in the Unincorporated Area." Finally, the County is currently conducting a Development Feasibility Analysis to assess the opportunities for residential development in four key unincorporated communities.

[3] The CCI for each region represents construction costs across nine different types of structures, including residential buildings.

during the COVID-19 pandemic; price inflation for many key construction commodities has far outpaced the 38% increase in the all-items Consumer Price Index (CPI) over the study period. Labor costs nationwide have also risen faster than the overall rate of inflation, likely due to reported shortages of construction labor.[4] Industry data suggests labor costs have increased even more rapidly in San Diego County, likely because increases in San Diego's cost-of-living have led to more acute labor cost increases as construction firms must pay more to attract workers in the region.[5] As of 2013, labor costs were 8% higher in San Diego than nationwide; by 2023, this differential had climbed to 23%.[6] In addition, state and local building codes have imposed various new energy efficiency[7] stormwater management measures, further contributing to construction cost increases. Finally, analysis of overall cost changes for things such as permits and fees, financing costs, and architecture and engineering expenses indicates that these costs increased on average 68% across San Diego County.[8]

A comparison of changes in construction costs and home prices shows that home prices and rents have grown far faster than the prices of labor and materials or soft construction costs. Over the entire 10-year Study period, home price appreciation, measured by the Case-Shiller index at 122%, was nearly double the rate of hard cost inflation (62%) or soft cost inflation (68%).

2.1.2 Changes in Land Value

While construction costs have increased rapidly during the past decade, these increases alone do not explain the overall increase in new home prices (or apartment rents). In addition, the rising value of land accounts for a large fraction of the increase in new home prices in the region. An analysis of San Diego County land sales data shows that the value of small parcels of less than 0.5 acres increased significantly during the past decade, from $630,000 per acre in FY 2012-13 to $1.9 million per acre in FY 2021-22, a rate of increase significantly higher than that of consumer goods or the rate of increase in hard and soft costs associated with residential development in San Diego County.[9]

2.1.3 Number of New Units Has Not Kept Pace with Demand

For more than a decade, the pace of homebuilding in the San Diego region has not kept pace with demand. In the nine-year period 2010 – 2019 (i.e., the period prior to the COVID-19 pandemic) the County population increased 7.7% while the number of housing units countywide increased just 4.8%. In the unincorporated areas, the population increased 4.2% while the housing stock increased just 2.9%.[10] Widespread adoption of remote work practices in more recent years has only increased pressures on the housing stock, particularly in neighborhoods farther from job centers.

Analysis of data reported by the state Department of Housing and Community Development (HCD) shows that, over the five-year period 2018 – 2022, San Diego County issued 1,018 housing unit permits per year,

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[4] "How Rising Construction Costs are Impacting Real Estate Development," NAIOP, December 5, 2023; "Construction Workforce Shortage Tops Half a Million in 2023, Says ABC,"

[5]

[6] Costs for construction labor and materials are often referred to as "hard costs."

[7] *2022 Building Energy Efficiency Standards Summary*, State of California Energy Commission. Available at: https://www.energy.ca.gov/sites/default/files/2021-08/CEC_2022_EnergyCodeUpdateSummary_ADA.pdf.

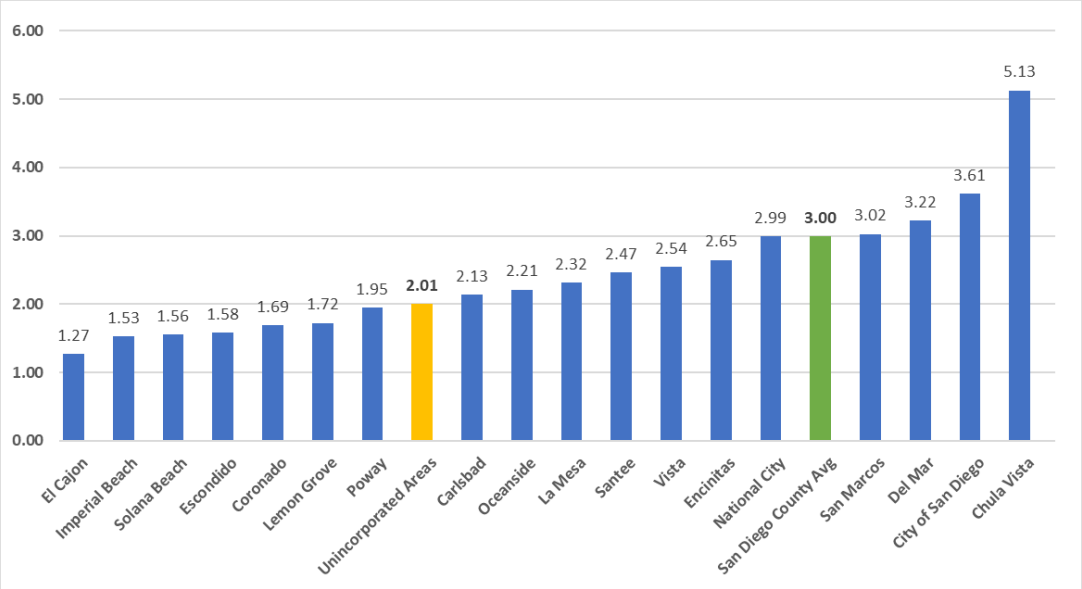
[8] Based on analysis by the Blue Sky Consulting Group. See Section 5.2 Pro Forma Analysis Results on page 44 for additional details on the calculation of soft cost increases.

[9] Results based on analysis of data from the San Diego County Assessor conducted by the Blue Sky Consulting Group. Results exclude parcels east of the Alpine area.

[10] *American Community Survey*, U.S. Census, 2010 – 2019.

on average, or roughly two units per 1,000 unincorporated area residents. Across all jurisdictions, the annual average was three units per 1,000 residents, just behind the statewide average of 3.12 units per 1,000 residents (see Figure 1).

Figure 1 - Housing Units Permitted Annually per 1,000 Residents (2018 – 2022 average)[11]



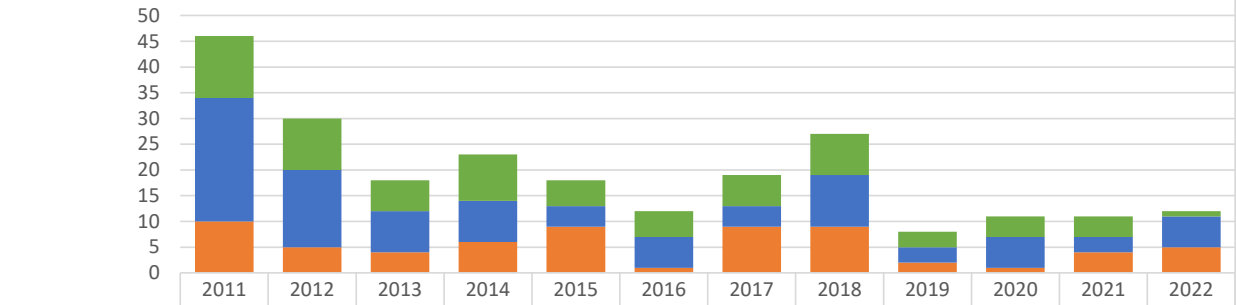
Approval time for Discretionary Applications and Building Permits has Increased

Analysis of the County's historical building permit data shows that the number of permits approved in recent years has increased, and that both the time from building permit application to approval and the time from permit approval to project completion have increased since 2013. Analysis of data for discretionary applications (Tentative Maps, Tentative Parcel Maps, and Site Plans) are less conclusive, but do show a decrease in both the number of approved applications and the number of associated units, as well as a general increase in the time from application to approval since 2013. These trends are summarized briefly here and discussed in more detail in Section 5.1.5.

Figure 2 shows that, while the number of building permits approved has increased recently, the number of discretionary approvals in unincorporated San Diego County has decreased considerably since 2011. Tentative Map approvals decreased from 12 in 2011 to just one in 2022, while Tentative Parcel Map approvals fell from 24 to 6 over the same period; Site Plan approvals also decreased from 10 to 5. As shown in the figure, the number of approvals varies over time, but the number approvals for the years since 2019 have all been below the historical averages.

[11] Blue Sky Consulting Group analysis of *Housing Element Annual Progress Report (APR) Data by Jurisdiction and Year*, California Department of Housing and Community Development, accessed August 1, 2023. Available at: https://data.ca.gov/dataset/housing-element-annual-progress-report-apr-data-by-jurisdiction-and-year.

Figure 2 - Unincorporated San Diego County Discretionary Application Approvals



	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Tentative Map	12	10	6	9	5	5	6	8	3	4	4	1
Tent Parcel Map	24	15	8	8	4	6	4	10	3	6	3	6
Site Plan	10	5	4	6	9	1	9	9	2	1	4	5
TOTAL	46	30	18	23	18	12	19	27	8	11	11	12

Source: Blue Sky analysis of San Diego County PDS Building Services Data.

Analysis of building permit data show that, while the number of permits issued has increased over the Study period, the time from application to residential permit issuance has also increased. As shown in Figure 3, from 2013 through 2017 the number of residential permits issued was consistently below 1,000 permits per year, averaging just 468 annually. For the period 2018 through 2022, the average number of permits issued increased to 1,112 per year, with only 2020 having fewer than 1,000 permits issued. This growth was due primarily to the increase in approvals for ADUs, which grew from fewer than 20 to more than 300 per year, and Single Family Tract Phase homes, which grew from fewer than 200 to more than 500 per year.

Figure 3: Unincorporated San Diego County Residential Building Permits Issued

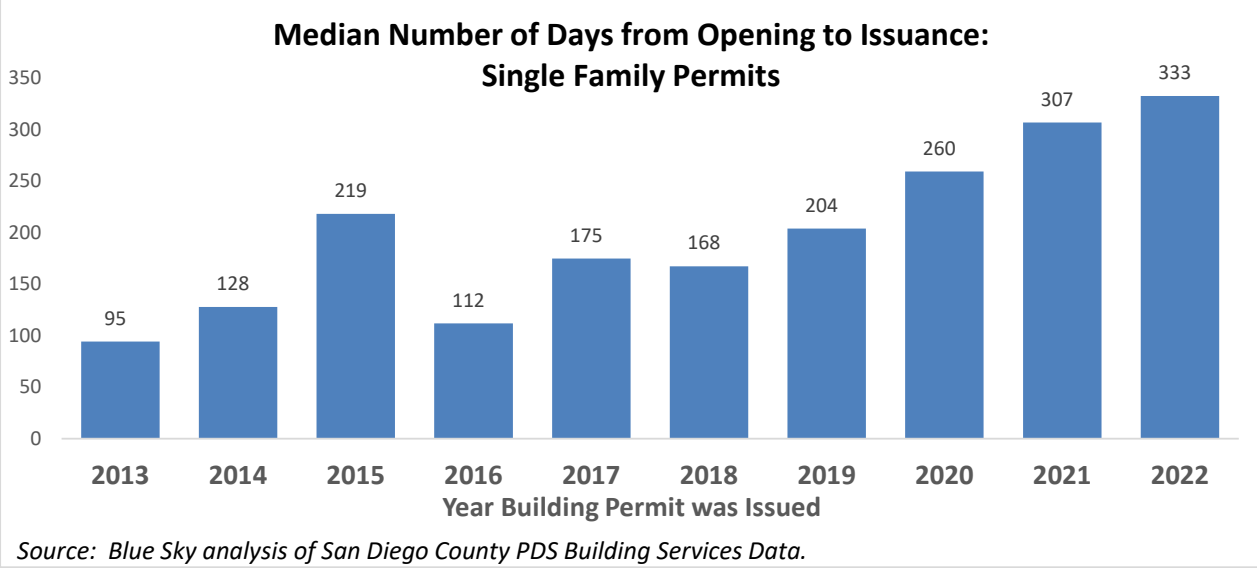
												5-yr Averages	
Project Type by Year Issued	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**Total**	**2013-'17**	**2018-'22**
Single Family	168	244	138	144	277	272	220	172	227	249	2,111	194	228
Single Family - Tract Master	19	16	5	5	21	17	15	29	42	5	174	13	22
Single Family - Tract Phase	154	204	18	82	330	564	494	433	584	504	3,367	158	516
Duplex/Triplex	0	11	0	0	11	0	0	4	1	4	31	4	2
Multi - Apt/Condo	2	28	1	11	9	3	7	17	16	43	137	10	17
ADU/Guesthouse	17	24	13	1	36	110	164	183	304	318	1,170	18	216
Mobile Home/Rebuild/Other	22	54	21	133	123	112	131	104	117	94	911	71	112
TOTAL PERMITS ISSUED	**382**	**581**	**196**	**376**	**807**	**1,078**	**1,031**	**942**	**1,291**	**1,217**	**7,901**	**468**	**1,112**
TOTAL ASSOCIATED UNITS	**402**	**715**	**211**	**503**	**866**	**1,165**	**1,122**	**984**	**1,441**	**1,512**	**8,921**	**539**	**1,245**
Source: Blue Sky analysis of San Diego County PDS Building Services Data.													

The building permit data also show that the time from application to permit issuance has increased considerably over the Study Period, from 95 calendar days for Single Family building permit applications approved in 2013 to 333 calendar days for those approved in 2022, as shown in Figure 4. [12] These increases likely are in part attributable to the disruptions caused by the COVID-19 pandemic which began in 2020, though approval times for the most recently approved applications have not yet returned to pre-

[12] The "Single Family - Tract Master" and "Single Family -Tract Phase" permits were excluded from the analysis because more than 98% of these applications were recorded as being issued on the same day as the date the permit application was opened.

pandemic levels.

Figure 4 - Unincorporated San Diego County Timing for Building Permits Issued



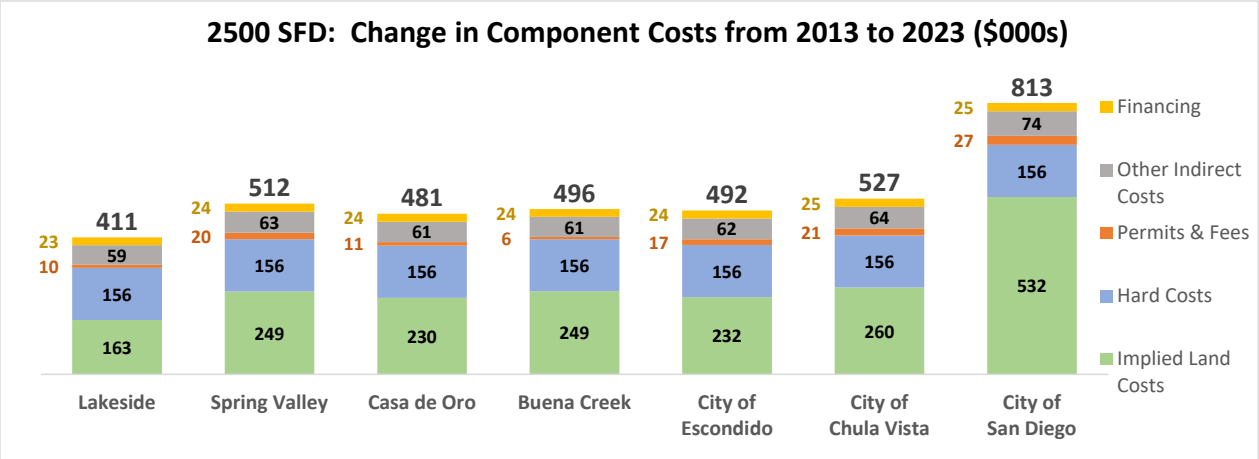
Source: Blue Sky analysis of San Diego County PDS Building Services Data.

2.2 Pro Forma Analysis Results

Analysis of detailed cost estimates to construct five specific building types across seven locations, known as pro formas, shows that, over the Study period, increases in hard and soft costs were 54% and 68%, respectively, higher than overall inflation but also lower than the increase in home prices.[13] Permits and fees (a component of soft costs often cited as a cause of increasing development costs) increased by an average of 36%, closely tracking general inflation. Overall, hard costs accounted for 31% of the overall increase in housing costs, soft costs accounted for 21%, and land costs 48% when averaged across all typologies and Study locations. Figure 5 shows the total increase in costs for a typical 2,500 square foot single family home across the seven Study locations in San Diego County, including four unincorporated areas and three incorporated cities.

[13] The term "hard costs" refers to costs for items such as construction labor and materials. "Soft costs" refers to costs for things such as permits and fees, financing costs, architecture and engineering expenses, and developer overhead and profit.

Figure 5 - Changes in Cost Components from 2013 to 2023[14]



2.3 Conclusions

While the reasons for increasing construction hard costs are many and can vary by project type and location, there is a limited set of policy options available to the County to address these costs. Most construction materials are national (if not global) commodities, with prices well beyond the ability of the County to control. Similarly, the available labor pool to build new housing is a function of wages contractors pay, the number of suitable individuals with the requisite skills and experience in a community, and other factors that are largely beyond the ability of the County to control. Changes in the state energy code have also increased both the quantity and types of labor necessary to build new homes. Nevertheless, there are some mechanisms through which the County can influence residential development costs, specifically by exercising its control over zoning and building permits. For example, any changes to the local building code beyond the requirements in the state code have the potential to add to construction costs. In addition, any actions the County takes to shorten (or lengthen) the construction timeline have the potential to impact these costs.

As with hard construction costs, the County has a limited ability to impact most categories of soft construction costs, which include costs for architects and engineers, project financing, developer profits, and permit and impact fees. There are, however, ways the County could impact soft construction costs: (1) through lower building permit and development impact fees or (2) by shortening the time required to process and issue permit applications.

Finally, the cost category over which the County has the greatest degree of control is also among the largest categories and the one that has increased at the most rapid rate during the past 10 years: the price of land.[15] While the value of land reflects multiple factors, the value of land for housing is directly related to the extent to which local governments allow housing development and the extent and type of development allowed. Specifically, allowing denser housing (e.g., smaller lots, townhouses, or multifamily apartments or condominiums) can increase the available housing supply while minimizing the land cost per unit produced.

[14] Amounts are presented in thousands of dollars ($000s).

[15] The county controls land use in the unincorporated areas.

The analysis presented in this report shows that component costs for new development have increased faster than inflation over the past 10 years, with costs for labor and materials increasing by more than 50% versus 38% for inflation overall. In addition to costs for labor and materials, soft construction costs for things like architects and engineers or construction financing have also increased more rapidly than inflation over the Study period.

These increases in hard costs and soft costs, however, do not fully explain the increase in new home prices or apartment rents. Instead, the results presented in this report suggest that land costs rose much more rapidly than other components of cost during this period, and outstripped increases in home prices overall.

Increases in land values are a result of multiple factors, including the desirability of a particular location for residential development, the willingness of landowners to sell their property (i.e., the supply of land), and the alternative uses for which a given parcel can be developed. In addition, however, land values for residential development are closely tied to the number of new housing units approved in a local jurisdiction. If the number of approved permit applications does not keep pace with demand, as has been the case in San Diego and across California for the past many years, the result is a sharp increase in the price of land suitable for residential development and, consequently, the price of new housing.

Stakeholders have pointed to uncertainty surrounding the County's Vehicle Miles Traveled (VMT) mitigation program and its potential financial implications as a factor contributing to fewer permit applications in unincorporated San Diego. In September 2022, the County adopted an updated set of “Transportation Study Guidelines” (TSG), which offered a new test for determining the significance of proposals’ traffic impacts using VMT. Under the TSG, if both (a) the future residents of a proposed unincorporated area project would drive more than 85% of the total daily miles driven per resident countywide and (b) the project is not located in an urban infill area, the project’s traffic impacts are deemed significant, requiring mitigation. The TSG determined that projects that were less than 11 units and within VMT Efficient and Infill Areas, among other screening criteria, would not have transportation impacts and could therefore be exempt from further VMT analysis.

The County faced a legal challenge on thresholds for "infill" projects within unincorporated villages and another for projects generating no more than 110 automobile trips per day. The Superior Court of San Diego County ruled in favor of the County, determining that the infill threshold was consistent with CEQA and supported by substantial evidence. The court also upheld the small project threshold, noting its alignment with recommendations from the Governor’s Office of Planning and Research (OPR).

In March 2025, the California Court of Appeal found that the County's thresholds for evaluating transportation impacts under the California Environmental Quality Act (CEQA) were not supported by substantial evidence. The court determined that assumptions about the transportation effects of infill development and projects generating fewer than 110 daily trips lacked sufficient data. Consequently, the appellate court reversed the lower court's ruling and directed it to reassess the Transportation Study Guide to determine whether portions of it could still be applied. As of April 2025, the legal proceedings remain ongoing with the outcomes potentially influencing the County's approach to VMT, infill areas, and its Transportation Study Guide. While this report's conclusions and recommendations reflect the County's VMT initiatives, the ongoing legal developments underscore the need for the Board to continuously assess policy impacts and implement necessary adjustments to support housing development.

2.4 Recommendations

The recommendations align with the County's current direction and highlight opportunities to enhance regulatory efficiency and housing feasibility. They emphasize the importance of streamlining processes, improving data collection, and ensuring predictability in permitting and land use decisions. Importantly, the recommendations underscore the need for ongoing evaluation of policy impacts to avoid unintended barriers to housing production—particularly in unincorporated communities. Moreover, the recommendations in the report are intended to support and align with the County's existing work program while also offering additional considerations to guide implementation of current and future housing initiatives and future planning efforts. To speed up the process for approving new housing units and to increase the number of units approved, this report makes the following recommendations:

1. Considerations for Development of Programmatic VMT Mitigation Policies that Minimize Builder Costs[16]
2. Expand Ministerial Permitting
3. Accelerate Process for Establishing Ministerial Grading Permits
4. Increase Allowable Density Where Market Forces Support It
5. Guarantee Discretionary Permit Review Timelines
6. Expand Program that Allows Builders to Defer Payment of Certain Impact Fees
7. Increase Investments in Training and Retaining Staff
8. Improve Data Collection and Reporting
9. Recognize and Evaluate Tradeoffs in Adopting New Policies That May Increase Housing Costs

[16] Due to ongoing uncertainty around VMT, the Board should periodically assess its policy implications.

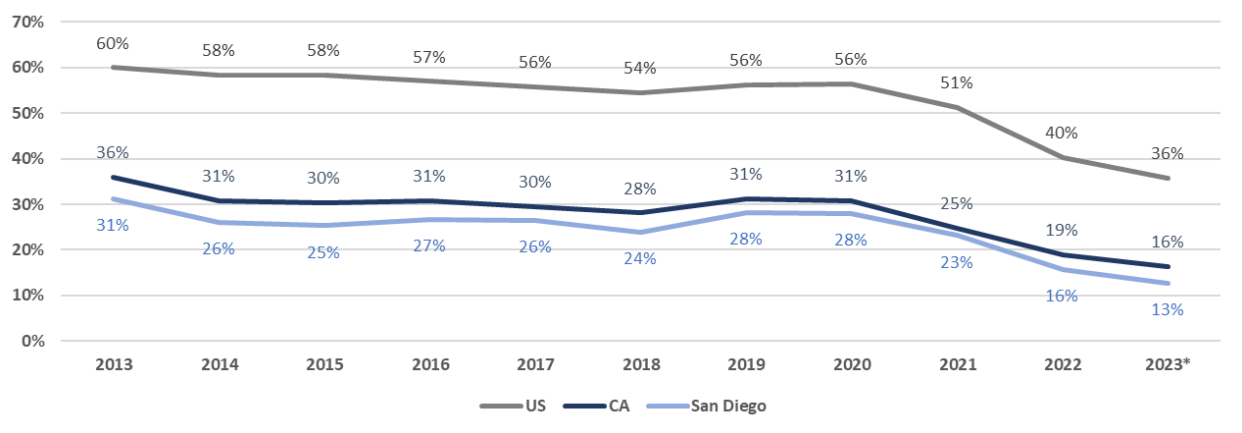
3 INTRODUCTION & BACKGROUND

On August 31, 2021, the San Diego County Board of Supervisors (Board) directed County staff to conduct a "Comprehensive New Construction Cost Study" (the "Study"), including "a quantitative assessment of localized inputs and factors that drive new construction costs in the unincorporated communities and across the San Diego region."[17] In December 2022, the County engaged the Blue Sky Consulting Group to conduct this Study.

3.1 Housing Affordability Continues to Decline Across the San Diego Region

The Board action to conduct a New Construction Cost Study came at a time of high and rapidly rising housing costs. As noted in the August 2021 Board letter that preceded this Study, home prices and rents in the region were appreciating far more rapidly than household incomes, with an estimated 43% of the county population spending more than 30% of household income on housing costs—the threshold that the federal Department of Housing and Urban Development (HUD) uses for determining whether a household is "cost-burdened."[18] This rate ranked third highest across all metropolitan areas nationwide. While long-tenured homeowners have been largely protected from these trends, lower-income residents of the County, renters, and first-time homebuyers face acute challenges. The Board letter reported that rents across the region were up 8.4% during the first year of the COVID-19 pandemic, and that, as of early 2021, the County's Housing Affordability Index (HAI)—a measure of the share of households that can afford to purchase a median-priced home—had dropped to just 25%.

Figure 6 – Housing Affordability Index (2013 – 2023) – U.S., California, and San Diego County[19]



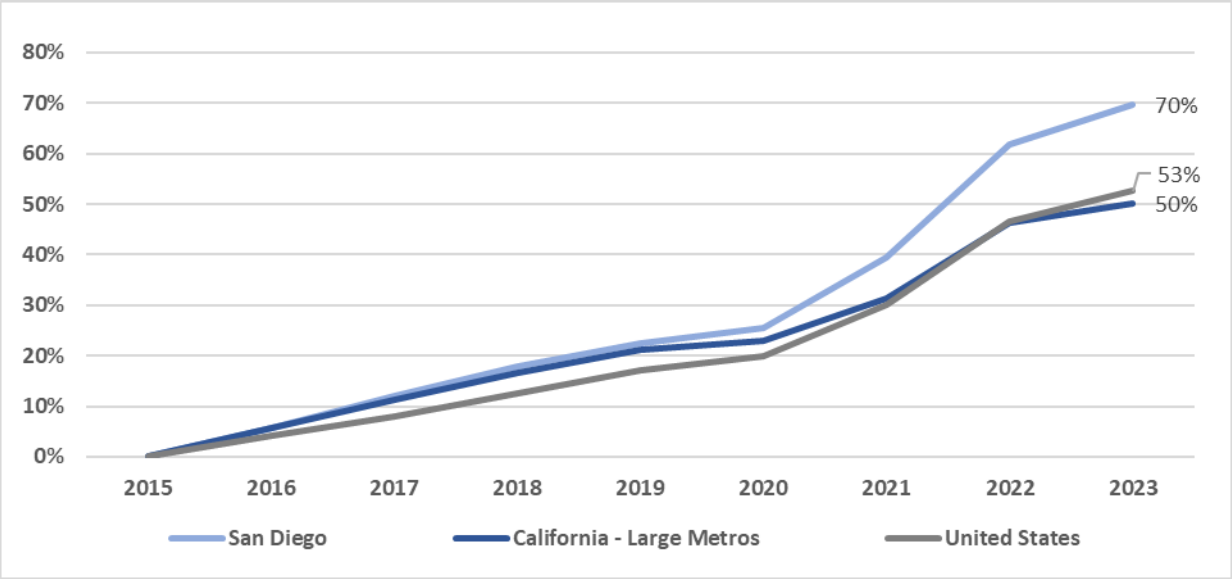
In the period since this Study was commissioned, these trends have worsened in San Diego and statewide. The County's HAI has fallen even further, hitting a new low of just 13% as of the second quarter of 2023, as shown in Figure 6. While San Diego's HAI has been below the statewide average for the past 10 years, the gap had narrowed somewhat in the years preceding the Board Letter. Data for 2022 and 2023, however, show that it is widening once again. In late 2023, US News and World report

[17] Action Item #3, *Transformative Housing Solutions That Advance Equity, Sustainability, and Affordability for All* County of San Diego Board of Supervisors (August 31, 2021).
[18] *Id.*
[19] "Housing Affordability Index – Traditional," California Association of Realtors, accessed October 1, 2023. Available at: https://www.car.org/en/marketdata/data/haitraditional

identified the San Diego region as the most expensive location in the United States.[20]

Affordability for renters has also worsened over the past several years. According to data from the Zillow Observed Rent Index (ZORI), median rents across the San Diego-Carlsbad Metropolitan Statistical Area (MSA) increased 21% during the period August 2021 to August 2023 — a pace that exceeded overall inflation in the MSA, as well as growth in household incomes over this two-year period. Figure 7, which compares San Diego MSA rent growth to state and nationwide trends over the 2015 – 2023 period, shows regional rents increasing 70%--a rate of increase 20 percentage points higher than the statewide average increase of 50% over this same period.[21]

Figure 7 – Cumulative Rent Growth (2015 – 2023) for U.S., San Diego, Large California MSAs[22]



Nevertheless, as these results suggest, the decline in housing affordability is not a trend specific to the County. Rather, in desirable coastal job centers across the United States, increases in the housing supply have not kept pace with increases in demand for new housing. While San Diego may face a larger challenge than other regions in bringing down housing costs, state and local governments across the nation are grappling with this same issue.

3.2 Factors Driving Higher Home Prices

Many previous studies have addressed the topic of rising home prices and development costs in California. The findings across these studies point to several causes of the high and increasing cost of building new housing, including higher construction costs, higher permit and impact fees, and state and local land use

[20] "Most Expensive Places to Live in the U.S. in 2023-2024," U.S. News and World Report (October 2023). Available at: https://realestate.usnews.com/places/rankings/most-expensive-places-to-live.

[21] The California regions experiencing the slowest rates of rent appreciation typically began the period with much higher-than-average median rents. For example, the San Francisco and San Jose MSAs, which account for roughly 20% of the statewide composite shown in Figure 7, posted the highest median rents statewide in 2015. Rent appreciation in these regions averaged roughly 24%.

[22] Blue Sky Consulting Group analysis of *Zillow Observed Rent Index*, Zillow, accessed October 1, 2023 (available at: https://www.zillow.com/research/data/). The *California – Large Metros* grouping is a population-weighted composite index created by the authors of this report. It includes all California metropolitan statistical areas (MSAs) ranking among the largest 100 MSAs nationwide.

laws and regulations that act to restrict supply and slow the development process.

3.2.1 Hard Construction Cost Inflation

In recent years, research has shown that growth in per-square-foot hard construction costs (i.e., the cost for labor and materials to construct new housing units) has exceeded the overall pace of inflation. In *The Hard Costs of Construction: Recent Trends in Labor and Materials Costs for Apartment Buildings in California*,[23] the University of California Berkeley Terner Center for Housing Innovation examined several drivers of housing costs statewide. Assessing hard construction cost trends as of March 2020, this study found that, for multi-family projects, hard costs rose 25% between 2009 and 2018 after adjusting for inflation. In a follow-up post from May 2022, Terner Center researchers noted that COVID-era inflation, driven in part by supply chain disruptions, led to even higher levels of inflation for certain key construction materials, such as insulation, exterior finishes, and electrical components.[24]

3.2.2 Development, Impact, and Permitting Fees

Due to state constitutional constraints limiting increases in property taxes, many local jurisdictions across California have relied on development impact fees to fund the infrastructure improvements necessary to support new housing.[25][26] Research from the Terner Center and other analysts has cited development impact fees as a significant driver of total development costs. In *It All Adds Up – The Cost of Housing Development Fees in Seven California Cities*,[27] the Turner Center discussed the various types of fees imposed on developers. They estimated total fee amounts on a per-unit basis across seven cities within California and found that, in some cities, development fees imposed on single-family homes exceeded $150,000 (even as of 2018, when the report was published). For multi-family developments, per-unit costs among the cities surveyed ranged from a low of $12,000 in Los Angeles to a high of $75,000 in Fremont. Another recent study, *Demystifying the High Cost of Multifamily Housing Construction in Southern California*,[28] found that impact fees in Riverside and San Bernardino Counties averaged $30,000 and $35,000, respectively, as of 2018.

3.2.3 Land Entitlement Process

Building new homes typically requires the subdivision of one large plot of land into many separate parcels. This process can involve local government review and approval of proposed changes to zoning and land use, location of utilities and roads, and other changes to how development occurs in the

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[23] *The Hard Costs of Construction: Recent Trends in Labor and Materials Costs for Apartment Buildings in California*, Terner Center, May 2020. Available at: https://ternercenter.berkeley.edu/wp-content/uploads/pdfs/Hard_Construction_Costs_March_2020.pdf

[24] *The Cost to Build New Housing Keeps Rising: State Legislation Aiming to Reverse the Upwards Trend*, Terner Center, August 4, 2022. Available at: https://ternercenter.berkeley.edu/research-and-policy/cost-to-build-housing-legislation-2022/

[25] Proposition 13, passed by voters in 1978, limits the property tax rate to 1% of assessed value and limits the increase in assessed value to 2% annually in most circumstances.

[26] Development impact fees are fees charged to offset the costs imposed by new development. These fees can be for things such as new school construction, environmental impacts, or traffic mitigation, among others.

[27] *It All Adds Up: The Cost of Housing Development Fees in Seven California Cities*, Terner Center, March 20, 2018 (available at: https://ternercenter.berkeley.edu/research-and-policy/it-all-adds-up-development-fees/); *Residential Impact Fees in California*, Terner Center, August 15, 2019 (available at: https://ternercenter.berkeley.edu/wp-content/uploads/pdfs/Residential_Impact_Fees_in_California_August_2019.pdf).

[28] *Demystifying the High Cost of Multifamily Housing Construction in Southern California*, UC Riverside School of Business, February 2020.

jurisdiction. This entitlement process can take years to complete, and frequently requires an environmental impact report (EIR) under the California Environmental Quality Act (CEQA) – a process that can add several years or longer to the development timeline.

3.2.4 Environmental Review

Enacted in 1970, CEQA requires state and local agencies to identify any significant environmental impacts likely to result from new developments subject to discretionary review. Projects that trigger CEQA face several hurdles in obtaining final approval, from lengthy environmental impact studies to litigation brought by a community's residents. While the legislature has modified CEQA's reach over the years—introducing various types of exemptions and opportunities for more limited environmental review—the process remains a key obstacle to many otherwise feasible residential developments. Though proponents and critics of the law disagree over the relative importance of CEQA in blocking new housing, recent analyses suggest that opponents of new housing frequently use CEQA to block discretionary multi-family housing developments. In 2020 alone, according to one report, CEQA lawsuits collectively challenged 47,999 housing units statewide (total annual statewide housing production is roughly 110,000 units per year).[29]

In certain development contexts, discretionary projects are nevertheless exempt from CEQA, or can alternatively seek "streamlined" review, which limits the scope of the local agency's review and removes opportunities for litigation. For instance, projects that are otherwise consistent with a jurisdiction's General Plan may forego a full EIR, so long as the local agency determines that any of the significant effects resulting from the proposed development are subject to uniform mitigation standards already established under a prior EIR covering the project site. Similarly, certain residential infill projects are entitled to streamlined review.[30]

In *Getting it Right: Examining the Local Land Use Entitlement Process in California to Inform Policy and Process*, researchers at the University of California Berkeley assess the importance of CEQA review in lengthening development timelines in five California cities.[31] This report suggests that local jurisdictions have flexibility in determining whether, and to what extent, CEQA review may delay project approvals, as development timelines across the cities surveyed varied considerably even where the same CEQA review process was used. As the authors explain, the significant disparities in approval timelines suggest that some jurisdictions are able to more quickly complete both CEQA review and their local discretionary review processes (e.g., design or architectural review; conditional use permits; or variances or rezonings).[32] Overall, however, the data collected also makes clear that higher-density projects and projects requiring more stringent CEQA review processes (e.g., projects that undergo a full EIR versus those that are eligible for project or tiering-based CEQA exemptions) typically are subject to longer approval delays.

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[29] *Anti-Housing CEQA Lawsuits Filed in 2020 Challenge Nearly 50% of California's Annual Housing Production*, California Center for Jobs & the Economy (August 2022). Available at: https://centerforjobs.org/wp-content/uploads/Full-CEQA-Guest-Report.pdf.

[30] "CEQA Streamlining For Infill Projects and Projects Consistent With Community Plan and Zoning," Southern California Association of Governments. Available at: https://scag.ca.gov/sites/main/files/file-attachments/ceqa_streamlining_for_infill_projects_and_projects_consistent_with_community_plan_and_zoning.pdf?1667860263.

[31] Moira O'Neill, Giulia Gualco-Nelson, and Eric Biber, Getting it Right: Examining the Local Land Use Entitlement Process in California to Inform Policy and Process, February 2018.

[32] The authors did not examine local review practices to determine why some cities' timelines were shorter than others.

3.2.5 Local Government Land Use Regulations

There is a broad consensus among housing policy experts that high housing costs in California are in large part the result of strict local land-use controls that limit the amount and type of housing that can be built in certain neighborhoods. Maximum residential densities, minimum lot sizes, building height limits, setback requirements, parking minimums, and other design criteria can constrain the supply of housing in areas where there is demand for denser single-family or multi-family development.

The May 2018 report, *The Effect of Local Government Policies on Housing Supply*,[33] examines the many levers that local governments control with the potential to reduce housing costs, including increasing density, relaxing parking requirements, expediting permit review timelines, and expanding projects' eligibility for by-right (ministerial) approval.

3.3 Recent State Actions to Address Housing Costs

In recent years, I California (State) legislature has taken a more aggressive approach to encouraging residential development, including approval of several pieces of legislation designed to reduce housing costs and promote development feasibility by limiting CEQA's reach. These bills require that local governments grant by-right (i.e., ministerial) approval to development proposals that meet various objective criteria. By mandating by-right approval processes, these projects can avoid both discretionary local review as well as CEQA review. Some recent state legislation includes the following:

- *AB 2011 (2022)*: Residential developments that meet affordability requirements must now be permitted by-right on parcels that sit on "commercial corridors" (i.e., roads at least 70 feet wide) and meet other qualifying criteria.[34]
- *SB 4 (2022)*: Higher education and religious institutions may construct residential units as-of-right on their property provided that the developments are 100% affordable and meet other objective criteria.[35] Over 170,000 acres are owned by these institutions statewide, and the San Diego-based "Yes In God's Backyard" (YIGBY) committee notes that, across the County, faith-based institutions own 4,675 acres of potentially developable land. YIGBY's aim is to assist these institutions in adding 3,000 residential units by 2025.
- *SB 35 (2017) / SB 423 (2022)*: Enacted in 2017, SB 35 requires that certain multi-family affordable housing projects be entitled to ministerial review in jurisdictions that have failed to meet their regional housing needs allocation (RHNA) housing production targets. SB 423, passed during the 2022-23 legislative session, removed the expiration date on SB 35 and added further labor and environmental protections.[36]
- *SB 9 (2021)*: SB 9 mandates that local jurisdictions allow single-family homeowners to divide their

[33] *The Effect of Local Government Policies on Housing Supply*, Terner Center, May 2016. Available at: https://ternercenter.berkeley.edu/wp-content/uploads/pdfs/The_Effect_of_Local_Government_Policies_on_Housing_Supply.pdf

[34] https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=202120220AB2011

[35] https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB4

[36] (SB 35) https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180SB35; (SB 423) https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202320240SB423

property into two separate parcels, each of which is allowed to provide two housing units.[37]

- *SB 10 (2021):* SB 10 allows local governments to bypass CEQA review when upzoning residential parcels in transit-rich or urban infill areas to allow up to 10 units.

3.4 County Efforts to Address High Housing Costs

This report represents just one of several efforts recently completed or currently underway to address the high costs of housing in San Diego County. Some of these complementary efforts include the following:

- *Options for Removing Barriers to Housing*, Board of Supervisors, May 24, 2023. The Board recently adopted a series of short, medium, and long-term recommendations to increase the production of housing. Adopted measures included guaranteed review timelines and permit fee waivers for 100% affordable housing developments and developments proposed in "VMT-Efficient" or "Infill"[38] areas; expedited building permit review for projects with plans substantially similar to plans previously approved; and the preparation of a preemptive EIR for certain areas with high residential development potential to reduce costs and uncertainties for project applicants.
- *Inclusionary Housing Study for the County of San Diego*, AECOM, January 2023. This analysis of inclusionary housing policy options makes several recommendations for the possible implementation of program requirements in the unincorporated areas. AECOM's analysis provides several representative pro formas showing the income limits that could be imposed without making residential development infeasible.
- *6th Cycle Housing Element*, August 4, 2021. The County's Housing Element identifies the unincorporated area locations where housing production over the duration of the 6th Cycle (i.e., April 2021 – April 2029) will meet the County's Regional Housing Needs Allocation (RHNA) target of 6,700 new housing units (including 1,834 very-low income units and 992 low-income units). The Housing Element's implementation plan commits the County to several key objectives, including the amendment of its zoning ordinance to allow by-right approval of 20% affordable projects on sites identified in its RHNA Sites Inventory and to establish minimum densities for multi-family sites in the inventory.[39]
- *Housing Blueprint* (ongoing). Currently under development, the Housing Blueprint will outline strategies for the County to meet certain overarching goals for regional housing, including the production of housing for all, the protection of tenants and the prevention of displacement. The Blueprint will consider input from the *Let's Talk Housing Workshop*, held in December 2022, and further stakeholder outreach conducted throughout 2023 and 2024.[40]

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[37] A follow-up Terner Center analysis shows that SB 9 has thus far led to relatively few parcel splits. See, "California's HOME Act Turns One: Data and Insights from the First Year of Senate Bill 9," Terner Center, January 18, 2023. Available at: https://ternercenter.berkeley.edu/research-and-policy/sb-9-turns-one-applications/. According to this analysis, the City of San Diego received only three applications for lot splits and approved only seven applications for new SB 9 units in the twelve months following SB 9's effective date.

[38] These designations provide streamlined CEQA review to project applicants and are discussed in more detail in Section 6.2 on page 46.

[39] *6th Cycle Housing Element Update*, County of San Diego, August 4, 2021.

[40] "Housing Blueprint," San Diego County, accessed January 24, 2024. Available at: https://engage.sandiegocounty.gov/housing-blueprint.

- *Sustainable Land Use Framework* (ongoing). The County is considering revising the existing General Plan's principles and vision to reduce vehicle miles traveled (VMT) in the years to come. As part of this work, the County in September 2022 adopted updated Transportation Study Guidelines (TSG), which redefined how the County would assess the significance of traffic impacts through VMT during CEQA review (see discussion in Section 7.2, "Balance VMT Reduction and Housing Production Goals").
- *Development Feasibility Analysis* (ongoing).[41] In commissioning a Development Feasibility Analysis (DFA), the County will assess the opportunities for residential development in four key unincorporated communities. The DFA will offer a parcel-level analysis of barriers to development, the demand for new housing in these areas, and the costs of any necessary additional infrastructure to promote development.
- *Options to Increase Housing Affordability in the Unincorporated Area*, San Diego County CAO, October 2018. The CAO conducted this study under a Board directive to investigate options to promote residential development in the unincorporated areas, including incentive programs or amendments to existing land use regulations. The report covers a range of perceived barriers to housing development and provides several recommended actions for the County to speed entitlement and permitting timelines, many of which have since been implemented or are currently underway.

[41] *Development Feasibility Analysis Statement of Work*, County of San Diego – Planning & Development Services, 2023.

4 PROJECT APPROACH AND METHODOLOGY

This section describes the data collected and methodological approaches used to analyze new construction costs in San Diego during the 2013 – 2023 period. Additional details about the methodology and data sources can be found in the appendices.

4.1 Defining New Construction Cost

Under the narrowest definition, "new construction cost" refers to the costs for labor and construction materials needed to build new housing units (often referred to as "hard costs"). In addition to hard construction costs, however, the price of new housing is also related to "soft costs," including payments for architects and engineers, financing costs, such as construction loans, costs for building permits and impact fees, and profits earned by developers. Yet even these two categories of hard and soft costs do not paint a full picture of the costs of developing new housing units. In fact, these two categories of construction cost leave out what may be the most important driver of new home prices: land costs.

To paint a complete picture of the factors driving the costs of developing new housing units in San Diego County (including for sale homes and townhouses as well as apartments), this report employed a comprehensive view, and presents an analysis of the broad range of factors driving increases in new housing costs, including hard and soft construction costs as well as land costs.

4.2 Overview of Analytical Approach

To identify the factors driving increases in housing costs in the County, this Study employed multiple analytical approaches and relied on multiple data sources, including an assessment of the underlying trends that are driving housing costs and a detailed analysis of development costs for specific types of housing.

4.2.1 Trends Analysis

First, the Study examined trends in overall housing costs over the past decade as well as increases in key sub-components of housing cost, including increases in costs for construction labor and materials, permits and impact fees, and construction financing costs. The trend analysis examined the changes in the sale price of potentially developable land in San Diego County as well as change in the cost to develop below market rate affordable housing over time, throughout the state, and within the San Diego region. This analytical approach provides insights into the overall trends in housing costs and sub-components of cost and allows for comparisons of these overall cost trends to the overall increases in home prices and apartment rents as well as comparisons of how the region compares to other areas in the state and nation.

4.2.2 Typology Analysis

Next, the Study developed detailed estimates of the costs of developing new housing, including hard and soft costs as well as land values. These detailed estimates of cost components are paired with estimates of the sales prices or rents different housing types can generate to develop a detailed picture of development cost, revenue, and overall feasibility of development, known as a pro forma.

In order to evaluate the changes in costs over time and across regions, pro formas were developed for

seven specific locations: four unincorporated communities in the County and three incorporated cities.[42] To measure changes over time, pro formas were developed for the years 2013 and 2023. Finally, these pro formas were developed for five different typologies, including two single-family home typologies, a townhouse, and two apartment typologies.

Together, this detailed analysis of costs across geographies and building types can provide insights into how costs have changed over time and in different locations in the County and offer granular analysis of the components of development costs that may be influencing home prices and apartment rents.

4.3 Typology Analysis Methodology – Study Locations

This report analyzes construction cost trends in seven locations in San Diego County, including four unincorporated communities and three incorporated cities (the "Study locations").[43] The unincorporated communities include Lakeside, Spring Valley, Casa de Oro, and Buena Creek. (See Appendix E for maps of these communities.) The incorporated cities include San Diego, Chula Vista, and Escondido.

All four unincorporated Study locations are in the western part of the County and border incorporated cities. These locations all contain neighborhoods that have been deemed "VMT Efficient" or "Infill" areas for CEQA streamlining purposes following the County's adoption of its updated TSG in September 2022. "VMT Efficient" neighborhoods are those where a typical resident travels at least 15% fewer miles in a vehicle than the average resident countywide. "Infill" neighborhoods are located in urbanized areas and have attained a threshold residential density level. Due to these designations, developers submitting project proposals on sites in these communities are entitled to streamlined CEQA review. (For detail on the significance of CEQA-streamlining and the VMT Efficient and Infill designations, see Section 6.2.) The County has therefore identified these neighborhoods as suitable locations for future residential development. "Appendix E: Development Feasibility Areas" provides maps outlining the borders of each of these communities.

4.4 Typology Analysis Methodology – Building Typology Selection and Overview

To assess the variation in development costs across different building types, five housing "typologies" were developed and serve as the basis of the costs analysis. The typologies include two single family homes of 2,500 and 1,800 square feet, a townhome of 1,500 square feet, and two multi-family for rent typologies with densities of 25 units per acre and 40 units per acre.[44]

Figure 8 presents a summary of the characteristics of each typology.

[42] The Study locations were selected by San Diego County. See next section for a discussion of the Study Locations.

[43] The Study locations were selected by San Diego County.

[44] The typologies developed for this report may not be feasible in each of the Study locations for both time periods. For example, some typologies may not be economically feasible in some areas, while other areas may have zoning or other restrictions that prevent certain of the typologies from being built under current rules.

Figure 8 – Typologies Comparison

	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
For Sale or For Rent	Sale	Sale	Sale	Rent	Rent
Number Units	50	100	160	250	400
Number of Buildings	50	100	40	10	10
Units per Building	1	1	4	25	40
Site Acres	10	10	10	10	10
Units per Acre	5	10	16	25	40
Stories	2	2	2	2	4
Floor Area Ratio (FAR)	0.29	0.41	0.55	0.72	1.15
Square Footage per Unit	2,500	1,800	1,500	1,000 Livable (1,250 Gross)	1,000 Livable (1,250 Gross)
Units - Type	4BR	3BR	3BR	2BR	2BR
Parking Type	Garage	Garage	Garage	Surface	Surface
Parking - Spaces per Unit	2	2	1	2	2

4.4.1 2500 SFD Typology

The 2500 SFD typology represents a development of 2,500 square foot single-family detached homes. Each home has two stories, and the development consists of 50 homes built on ten acres of land for a density of 5 units per acre.

Of the five typologies presented in this report, this typology is most representative of the new single-family developments recently built across the County. Specifically, analysis of Redfin home sales data shows that, as of August 2023, the median new-construction single-family home in the County was 2,503 square feet, down just slightly from 2,508 square feet in 2022.[45,46]

At a density of five units per acre, the 2500 SFD typology offers the lowest residential density of the five typologies presented in this report and approximates the types of new construction permitted in regions of the County designated "VR 4.3" (i.e., "Village Residential", 4.3 units per acre) in the Land Use Code. The VR 4.3 designation is common within the designated DFAs in Lakeside, Spring Valley, and Casa de Oro-Mount Helix, though the maximum allowable density outside the DFA borders in the unincorporated areas is typically lower.[47]

4.4.2 1800 SFD Typology

The 1800 SFD typology represents a development of 1,800 square foot single-family detached homes. Each home has two stories, and the development consists of 100 homes built on ten acres for a density of 10 units per acre.

While the 2500 SFD typology is more representative of the new single-family homes built across the County, analysis of sales data from the County Assessor's roll and Redfin establishes that, at least in some

[45] See Appendix A for an overview of median prices, median prices per square foot, and median home living areas for each Typology in each Study location.

[46] Redfin only provides new-construction data at the county or metropolitan area level; new single-family home median footprints likely vary across cities and unincorporated communities. The Redfin data establishes, however, that in all seven Study locations, the median size across all home sales (both new and existing) is under 2,000 square feet, except for Casa de Oro-Mount Helix (estimated median size in 2023 of 2,271 square feet).

[47] For instance, the Eucalyptus Hills neighborhood of Lakeside, roughly a mile north of the Lakeside DFA, comprises a large share of the Lakeside's total land area and is exclusively zoned "Semi-Rural Residential" with a maximum density of one unit per acre (i.e., "SR-1").

incorporated and unincorporated areas, newer subdivisions often offer homebuyers smaller detached homes built on smaller lots. Furthermore, smaller homes are less expensive to construct, and so offer a potential means of reducing per-unit housing costs. In addition, houses of this size are more reflective of the average size of existing homes in the county. Specifically, the median square footage across all home sales in the County in 2023—including both new construction and existing units—was 1,714 square feet according to Redfin sales data.

At a density of 10 units per acre, the 1800 SFD typology is roughly one-third more dense than development patterns in regions of the County designated "VR 7.3" (i.e., Village Residential, 7.3 units per acre) and is roughly equivalent to the "VR 10.9" designation (i.e., Village Residential, 10.9 units per acre) in the Land Use Code. In the Spring Valley DFA, the VR 7.3 designation is very common. The VR 10.9 designation is rare across in the DFAs surveyed; parcels zoned for densities higher than VR 7.3 are typically zoned for at least 15 units per acre.

4.4.3 Townhouse Typology

The Townhouse typology represents a development of three-story townhouses. Each unit has 1,500 square feet of living area with a garage space on the first floor. The development includes 40 four-unit buildings spread over ten acres of land for a total of 160 units and a density of 16 units per acre. At this density, the Townhouse typology is 60% more dense than the 1800 SFD typology and more than three times denser than the 2500 SFD typology.

Only a small proportion of developable land in the unincorporated areas allows densities of 15 or more units per acre (land use code "VR-15" or higher). In the DFAs surveyed, however, these densities are more common, especially on parcels near or adjacent to commercial strips.

4.4.4 Two-Story MFH Typology

The Two-Story MFH typology represents a development of two-story multi-family apartment buildings. Each building has two stories and 25 rental units with an average of 1,000 square feet of living space per unit and a total of 1,250 gross square feet per unit (the remaining square footage is common space). The Two-Story MFH development includes ten buildings built on ten acres for a total of 250 units, or a density of 25 units per acre. This roughly corresponds to the Land Use Designations VR-24 and VR-30, which may apply to parcels adjacent to commercial strips in the surveyed unincorporated Study Locations. These designations account for a very small share of unincorporated land area, however, even in relatively urbanized unincorporated communities.

4.4.5 Four-Story MFH Typology

The Four-Story MFH typology represents a development of four-story multi-family apartment buildings. Each building has 40 rental units with an average of 1,250 gross square feet per unit and 1,000 net square feet of living area. Each unit also has two surface parking spaces. The Four-Story MFH includes ten buildings built on ten acres for a total of 400 units or a density of 40 units per acre. At this density, the Four-Story MFH would offer 33% greater residential density than the highest-density designation currently found in the General Plan, VR-30. In many unincorporated communities, including Spring Valley

and Casa de Oro-Mount Helix, no parcels are currently designated VR-30.[48]

4.5 Development of Pro Forma Estimates

The analysis and findings derive from development of unique real estate pro formas for each typology in each Study location. Each pro forma shows an estimate of the total expected development costs, including both hard and soft costs, and expected revenues for each typology (i.e., sale price or implied value based on expected rental income). Subtracting the total cost estimate for each typology from its associated expected revenue provides the "residual land value." The residual land value represents the most a developer would be able to pay for a ready-to-build parcel of land (i.e., one which is approved for residential development and has all utilities, roads and other improvements provided).

Each pro forma therefore requires estimates of hard and soft costs and expected revenues (from sales or rent); these estimates vary depending on the typology and Study location. Both the cost and revenue estimates in this report derive from analyses of publicly available real estate data sources, including government data sources, academic studies, and industry publications. These estimates were further verified or refined based on a review of previous housing research (both generally and specific to the San Diego region) as well as interviews with developers of affordable and market-rate housing.
This section provides a general description of the data sources for the revenue and cost estimates; the pro forma analysis discussion in "Appendix B – Pro Forma Analysis Detail" provides more detail on the sources used for specific assumptions, and a full listing of the data sources used is included in Appendix D.

4.5.1 Revenue Estimates

SFD Sales Prices

For both the SFD typologies and the Townhouse typology, the pro formas present estimated 2013 and 2023 sales prices for each Study Location. As detailed further in Appendix A, available data on sales prices in individual communities cannot be directly used to estimate the prices of a home with specific attributes (i.e., a home of a particular size in a specific location) as required for the pro forma analysis.

In order to develop estimated prices specific to each typology and location, 2023 price estimates were derived from a regression-based analysis of all single-family home sales across San Diego County over the 12-month period spanning September 1, 2022, to September 1, 2023.[49] This dataset includes, for each listed sale, variables that determine home prices, including the home's living area, the number of bedrooms and bathrooms, the lot size, the home's location, and the year that the home was built. The regression results estimate the value of a home with each typologies' specific attributes for each zip code across the County, including the estimated "new home premium" and the amount buyers are willing to pay for larger homes (i.e., the marginal value buyers place on additional square feet of living space). Price estimates for 2013 were derived from an analysis of overall trends in median home prices (controlling for

[48] Although this typology is denser than what is currently allowed, such projects have been built elsewhere in San Diego County and could be developed in the unincorporated area either as a result of a zoning change or through application of the state density bonus, which allows for additional density above local maximums where a certain minimum number of below market rate units is included.

[49] Regression analysis is a commonly used statistical analysis technique that allows researchers to estimate the relationship between one set of factors known as independent variables, such as characteristics of a specific housing unit, and another factor, known as the dependent variable, such as price.

changes in home attributes)[50] between 2013 and 2023.

Townhouse Sales Prices

Estimated prices specific to the townhome typology in each location were developed using Redfin's New Construction data, which provide monthly data for the median price and median price per square foot of new homes in San Diego County. Because these reports provide both metrics for both SFD and Townhouse units, they can be used to determine typical price spreads between new SFDs and new townhouses. This spread was applied to the estimated SFD Typology prices in each Study location to generate estimated Townhouse prices.

Typology Rents (Two-Story MFH, Four-Story MFH)

Estimated rents for each Study Location were developed based on data from RentCafe, which reports the median monthly rent and median square footage across all apartments available for rent in each Study location. The Typology rent was calculated as the median rent $PSF in each location and multiplied by 1,000 square feet (i.e., the MFH Typologies' average unit size). This estimate was then adjusted by 10% to reflect the premium typically paid for new units relative to existing units.[51]

Rent estimates for 2013 were derived from the Zillow Observed Rent Index (ZORI), which shows rent cost inflation for many cities and unincorporated communities in the County, along with data on the "Rent of primary residence" from the San Diego region CPI, as reported by the Bureau of Labor Statistics (BLS). "Appendix A – Estimated Sales Prices and " provides further detail on the rent and rent inflation estimates for the MFH typologies.

4.5.2 Hard Cost Estimates

The term "Hard costs" refers to the costs incurred by developers for labor and materials during construction, including contractor overhead and profit. Estimates of hard costs for each typology in 2013 and 2023 were developed using RSMeans' construction cost estimation software, which aggregates construction cost data for various building units or assemblies,[52] adjusted for differences in costs across metropolitan areas throughout the United States. RSMeans' cost estimates depend on a range of user inputs, including the building's footprint, its height, the materials used for its frame, and the quality of its finishes.

For the purposes of this report—which focuses on identifying the factors influencing construction cost trends—hard cost *inflation* over the Study period represents a key analytical finding. Specific per-unit and per-square-foot hard costs may vary significantly depending on the attributes chosen for a given typology (e.g., size, number of stories, frame type, finishes, and other amenities), even when holding the unit type, build date, and site location constant. To develop an accurate estimate of hard cost inflation over the Study period, the typology attributes are held constant over time such that the results of the analysis reflect changes in hard costs for a similar structure completed at the beginning and end of the Study

[50] The change in the median single-family home price in a given location over a 10-year period may not accurately reflect real underlying home value trends, since the attributes of the specific homes sold in a given year can change over time.

[51] This estimated 10% premium reflects the difference in median $PSF between new and existing condominiums sold across San Diego County in 2023.

[52] A unit refers to an individual building component, such as a door or exterior paint. Assemblies are collections of units, such as building exteriors or foundations. Costs of units and assemblies reflect both the material cost as well as the estimated installation (labor) cost.

period (rather than focusing on changes in the types of houses that were built).

To estimate hard cost inflation over the 2013 – 2023 period, hard cost estimates for each typology in 2023 were compared to the same build in 2013. While the estimated per-square-foot and per-unit costs vary substantially across typologies, the estimated rates of hard cost inflation for each typology are similar, reflecting similar trends in underlying changes in costs for labor and materials regardless of typology.

The baseline cost estimates generated by RSMeans were adjusted to reflect building code changes specific to the region that occurred during the Study period. To the extent that environmental, labor, safety, or other regulations affect the costs of building materials, wages, or the mix of labor involved in residential development, these regulatory impacts are reflected in the total hard cost estimate for each typology.

These estimated inflation rates were verified by analysis of construction cost data collected from other public and private sources, including the Bureau of Labor Statistics (BLS), the Engineering News Record (ENR), the State of California's Department of General Services (DGS), and the State's Employment Development Department (EDD). For additional details pertaining to each typology's building specifications, use of RSMeans and refinements to its output to reflect California-specific building styles and standards, see "Appendix C: Hard cost estimate methodology," which provides detailed estimates of the costs and revenues for all of the building typologies in each Study location.

4.5.3 Soft Cost Estimates

Soft costs for residential development projects include expenses that are not directly tied to the labor and materials used for the construction of a building. For this analysis, soft costs are grouped into three categories: permits and fees, financing costs, and other indirect costs.

Permits and Fees

Permits and fees include all building permit fees, inspection fees, impact fees, water and sewer fees, utility hookup charges, and other similar charges imposed by a state or local government or utility and required to proceed with construction or occupancy.[53] Cost estimates for permits and fees are based on the fee schedule for the year and location of each pro forma.[54] Sources include either the municipality or, for the projects located in unincorporated areas, the County of San Diego for permit fees and other fees collected by those entities as part of the permitting process (e.g., transportation impact fees, park impact fees, fire mitigation fees, etc.).[55] External fees, including school impact fees were estimated based on fee

[53] Note that indirect cost estimates presented do not include any costs associated with inclusionary housing requirements, which would require a developer to either provide affordable (below-market) units or pay an in-lieu fee. The Cities of San Diego and Chula Vista currently have inclusionary requirements, which could increase the total development costs for those jurisdictions above the estimates provided here. The pro forma analysis also presumes the development occurs within the current boundaries of the local utility districts and could be easily connected to the existing infrastructure for water, sanitation and gas and electric utilities; thus, the impact fees to not include any costs or fees associated with expanding the district boundaries (e.g., annexation fees) or extending utility infrastructure to the development site. Most fee types are based on a "cost recovery model" in which fee amounts are set at a level needed to recover the costs of the service provided or offset the impact of the new development.

[54] Impact fees are charged to mitigate impacts of development and provide funding for items such as new or upgraded infrastructure. Permit fees are linked to local government costs to process and approve permit applications.

[55] Note that for large residential developments many jurisdictions charge different permit and inspection fees for the initial "model phase" and lower fees for the "subsequent phase." In those instances, the model phase rate was used for the first building and the lower subsequent phase fee for all additional buildings.

schedules from the appropriate school districts; water and sanitation (wastewater) fees were estimated based on published data from the appropriate water and/or sanitation district for the applicable impact, capacity and hook-up fees.[56]

Financing Costs

Financing costs include the costs associated with financing a development project through the construction period. The financing costs for a residential development project vary depending upon the amount of financing needed, the fees and interest rates charged, and the length of time for which the financing is required.

For the pro forma analysis, the financing cost assumptions vary over time and by typology. The percent of the project financed, the fees charged by the lender as a percent of the amount financed, and the interest rate charged are consistent across typologies. For each pro forma, developers are assumed to finance 65% of the total direct and indirect costs and pay a 0.75% financing fee on the amount borrowed for both 2013 and 2023.[57] Interest rates were estimated to be 5.75% in 2013 and 10.00% in 2023 across all building types, rates that correspond to the prime rate plus 2.50%.[58]

The financing period used for each typology is based on data from the U.S. Census Bureau's Survey of Construction. Census estimates for the Western Region were applied based on the building size of each typology, using the "1 unit" estimates for the single-family building types, the "2 to 4 unit" estimate for the Townhouse typology which assumes 4 units per townhouse, and the "20+ unit" estimates for the multifamily rental typologies.[59] To estimate the total financing period, an additional 6 months were added for each estimated timeline to account for the period after construction has ended until the units are sold or rented, commonly referred to as the "leasing/absorption period." Across the individual pro forma analyses, the full construction financing period ranges from just under one year (11.5 months) to over two years (28.5 months), as summarized in Figure 9 below.

Figure 9 – Construction Financing Periods for Pro Forma Analysis (Months)

	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
2013 Construction Period	5.5	5.5	8.9	14.6	14.6
Leasing/Absorption	6.0	6.0	6.0	6.0	6.0
Total Financing Period	**11.5**	**11.5**	**14.9**	**20.6**	**20.6**
2023 Construction Period	9.3	9.3	17.5	22.5	22.5
Leasing/Absorption	6.0	6.0	6.0	6.0	6.0
Total Financing Period	**15.3**	**15.3**	**23.5**	**28.5**	**28.5**

Other Indirect Costs

The other indirect costs included in the pro forma analysis represent all the remaining soft costs, such as

[56] Fee estimates were corroborated based on results of the Building Industry Association of San Diego County's annual fee surveys from 2013 through 2021, which provide a detailed compilation of many of the fees charged throughout the County. See https://biasandiego.org/.

[57] These values match those currently used by the Terner Center's *Housing Development Dashboard* (see https://ternercenter.berkeley.edu/development-calculator-dashboard/).

[58] For 2013 and 2023 results based on the Bank Prime Loan Rate as of January 1st as published by the Federal Reserve Bank of St. Louis (https://fred.stlouisfed.org/series/DPRIME).

[59] Note that the 2023 pro formas rely on 2022 Census estimates because the 2023 estimates are not yet available.

architecture and engineering (A&E) fees, legal and accounting fees, insurance costs, general and administrative (G&A) expenses. This category also includes costs that are incurred after construction is complete, such as commissions and marketing costs, developer fees/profit, and for the rental typologies, ongoing maintenance and operating costs. The values used to estimate the other indirect costs are summarized in Figure 10 below.

Figure 10 - Additional Indirect Cost Parameters Used in Pro Forma Analysis

Cost Paramters	2023	2013	Source(s)
Construction Phase			
Architect & Engineering (% Hard Costs)	7.0%	7.0%	RS Means, CTCAC Data
Legal, Insurance, Warrany (% Hard Costs)	3.0%	3.0%	Industry research, CTCAC Data
Marketing ($/Unit)	$2,000	$1,445	Industry research, 2013 values deflated from 2023
General & Administrative (% Indirect Costs)	1.0%	1.0%	Industry research, CTCAC Data
Soft Cost Contingency (% Indirect Costs)	5.0%	5.0%	Industry research, CTCAC Data
Developer Fee (% Hard Costs)	4.5%	4.5%	Industry research, CTCAC Data
Post Construction Phase			
For Sale Typologies:			
Commission Paid (% Sale Price)	3.0%	3.0%	Industry standard, buyer commission only
For Rent Typologies:			
Avg Monthly Rent ($/Unit)	$3,098	$1,927	Blue Sky Analysis
Vacancy (%) (% of Units)	5.0%	5.0%	Terner Dashboard
Operating Expenses (% of Revenues)	30.0%	30.0%	Terner Dashboard
Capitalization Rate	4.0%	5.0%	Costar (2023)
Commission Paid (% of Revenues)	3.0%	3.0%	Industry research
All Typologies:			
Developer Profit (% of cost before land)	10.0%	10.0%	Industry research, Terner Dashboard

4.5.4 Land value

For purposes of the typology analysis, the cost of land was estimated as the expected revenues generated by a residential development (i.e., home sale proceeds or the net present value of future rental income) less all expected expenses (i.e., hard and soft costs). That is, it is the amount that a developer could pay to acquire a parcel of land that has been approved for residential development and has all utilities, roads, and other improvements provided. The land costs presented in the pro forma analyses are therefore not tied directly to specific land sales but are rather the residual after subtracting typology expenses from typology revenues.

5 RESULTS

This section presents the results of a quantitative assessment of the localized inputs and factors that drive new construction costs in unincorporated communities and across several jurisdictions in San Diego County. This assessment considers trends in hard costs (e.g., construction labor and materials), soft costs (e.g., costs for architects and engineers, legal services and marketing, financing, and permitting and impact fees), and land values. This section provides detailed analyses of how housing costs have increased over time and compares these changes to changes in the cost of constructing new housing units over time and across jurisdictions.

The first section, 5.1 Cost Trends Results, presents data from the analysis of cost trends in the region. This is followed by a more detailed analysis of specific housing typologies and locations in section 5.2 Pro Forma Analysis Results. Analysis of costs for tax credit financed affordable housing is presented in Section 5.3 Changes in Cost for Tax Credit Financed Affordable Housing.

5.1 Cost Trends Results

During the past decade, costs for the key components of new home construction – construction materials, construction labor, and construction soft costs – have all increased significantly. In addition, the most significant cost increase – both in terms of dollar value and rate of increase – has come from the price of land.

5.1.1 Costs for Construction Labor and Materials

During the past decade, construction costs for labor and materials have increased substantially, rising faster than the rate of inflation. Hard costs in California, including in the San Diego region, have risen more than hard costs nationwide.

Drivers of Hard Cost Inflation

For residential construction the term “hard costs” refers to the costs of labor and materials needed to build new housing. This includes wages paid to construction workers, such as electricians and carpenters, as well as purchases of lumber and other building materials, such as plumbing fixtures and concrete. In addition, because the goods and services used for residential development change over time, overall changes in hard costs reflect more than just the aggregate price increases across a set of inputs. In other words, as building practices change, total per-unit hard costs may increase by more than the prices of individual labor or materials inputs. For example, the construction labor force needed to build a house may change over time, requiring specialized professionals, such as solar panel installers, that are needed due to changes to the State’s Building Standards Code.[60]. Similarly, changing customer demands may result in changes in the amounts or kinds of materials used in construction. As a result, as shown in the sections that follow, the rate of hard cost inflation in San Diego over the 2013 – 2023 period—at least as measured by the RSMeans Construction Cost Index (CCI)—exceeds the inflation of both construction wages and materials prices.

Hard Costs Are Increasing Rapidly

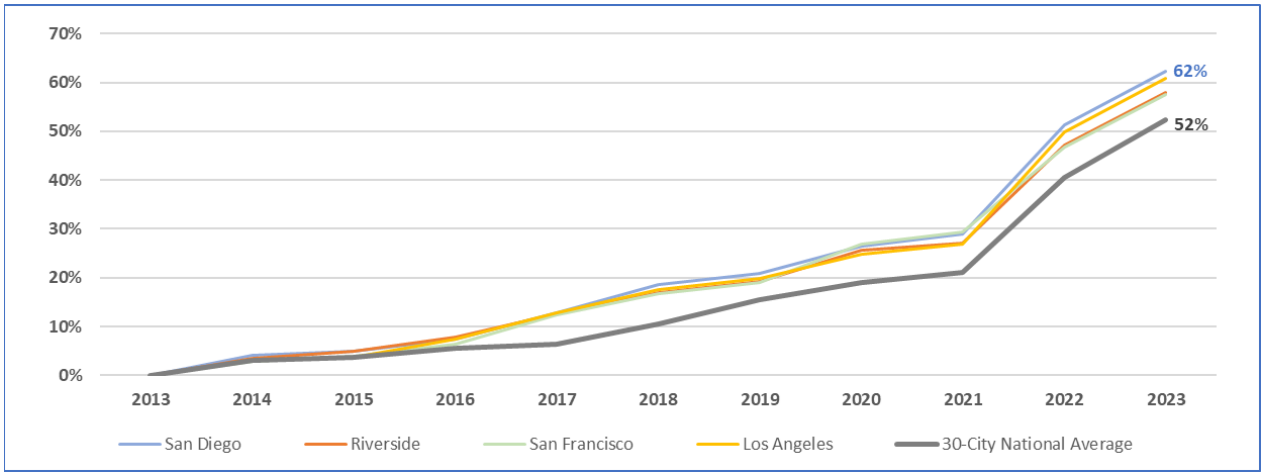
RSMeans data for the 2013 – 2023 period show that hard cost inflation in the County exceeded the

[60] The Building Standards Code comprises 11 Parts, including the Building Code, Fire Code, and Energy Code. The 2019 and 2022 updates to the Energy Code, for example, imposed solar panel installation and electric vehicle charging requirements on new residential development.

average rate nationwide. As shown in Figure 11, the San Diego CCI increased 62% during the Study period, while RSMeans' 30-City Average CCI—a proxy of overall hard cost inflation nationwide—rose by 52%.[61] The San Diego MSA's CCI increase was similar to the rate of increase in other California regions, including Riverside (58%), San Francisco (58%) and Los Angeles (61%). The similarity in the rates of hard cost inflation across California suggests that San Diego's experience is less likely the result of localized economic or political dynamics and more likely a consequence of broader statewide trends.

Due in large part to materials price increases in the wake the COVID-19 pandemic, over half of the total hard cost growth during this 10-year period occurred during the most recent two-year period (2021 – 2023), as shown in Figure 11.

Figure 11 – Hard Cost Inflation – San Diego County and Selected Regions (2013 – 2023) [62]



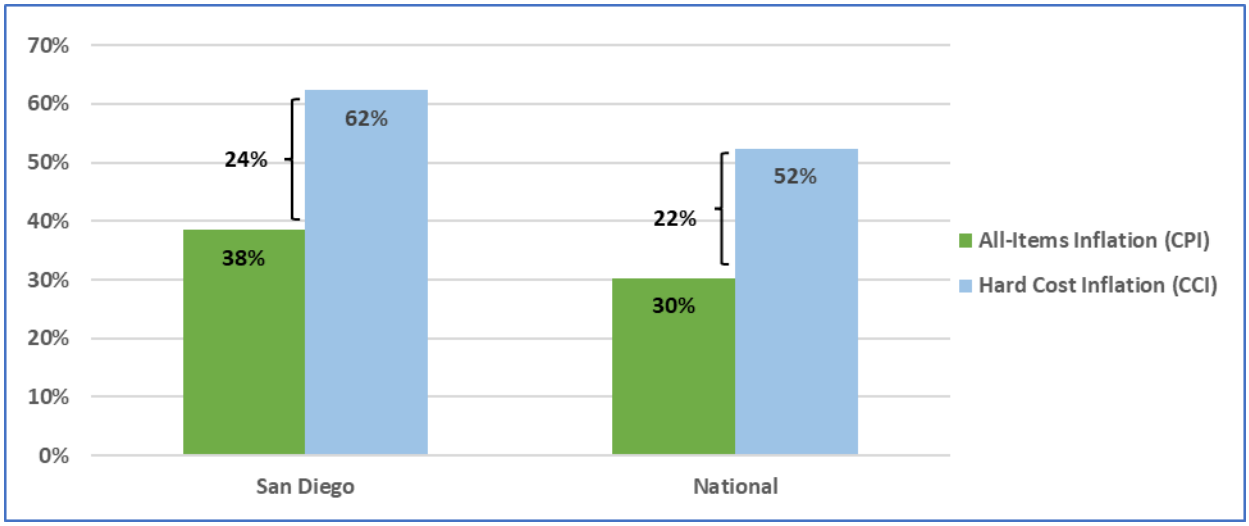
As shown in Figure 12, at both the local and national levels, relative to the prices of other goods and services, construction hard costs were more expensive in 2023 than in 2013. In the San Diego MSA, hard costs rose nearly two-thirds more than the all-items Consumer Price Index (CPI) over the 10-year Study period (i.e., 62% vs. 38%). Nationally, the percentage spread was nearly identical (52% vs. 30%). In other words, the difference between regional and national rates of hard cost inflation is roughly proportional to the difference between regional and national rates of broad (all-items) inflation. This finding suggests that the factors driving hard cost increases in San Diego are similar to those driving hard cost inflation nationally, rather than simply reflecting unique conditions in the San Diego region, although the rate of hard cost inflation locally was more rapid.[63]

[61] The CCI for each region is a function of the estimated prices of "66 commonly used construction materials; labor-hour [rates] for 21 building construction trades; and [costs of] equipment rental for 6 types of construction equipment." Notably, the CCI represents construction costs across nine different types of structures, including residential buildings. As discussed in "Appendix C: Hard cost estimate methodology," hard cost inflation for residential structures in San Diego has been lower than overall hard cost inflation across all building types.

[62] *City Cost Indexes*, RSMeans (2023).

[63] If hard costs in San Diego were significantly impacted by policies or economic trends unique to the state or region, we would expect that the difference between hard cost and all-items inflation at the regional level would exceed this difference at the national level. Instead, it appears that across the country, there are roughly equivalent spreads between the prices of construction-sector goods and services and total goods and services. In other words, the relatively higher increase in hard cost inflation appears to be due to higher overall inflation, rather than construction specific factors in the San Diego region.

Figure 12 – Hard Cost Inflation vs. All-Items Inflation – San Diego and United States (2013 – 2023) [64]



Materials Prices

BLS's Producer Price Index (PPI) shows that nationwide, for the residential construction sector, input prices have increased an estimated 47% since 2013, nine percentage points higher than the San Diego region's CPI. While overall prices have increased significantly during the Study period, the data in Figure 13 shows that prices of the key construction materials that drive overall construction sector input price changes can vary from year to year. Importantly, in the most recent period, prices fell for each of the input categories, reducing the overall rate of inflation for the Study period. For example, BLS's "Iron and Steel" category was up 68% through 2022 before prices fell sharply over the past year. Similarly, the "Lumber and Wood" category was up 47% over its 2013 level before its recent correction.[65]

While BLS does not produce a region-specific PPI for San Diego County or California, construction materials prices (unlike labor costs) are unlikely to vary substantially across regions, since construction materials are commodities with prices largely set in national or global markets.[66] RSMeans' data confirms that changes in materials costs in San Diego did not substantially exceed materials cost inflation nationally. Over the 2013 – 2023 period, materials prices in the County increased 4.1% more than the materials prices across the CCI 30-City Average.[67, 68] In addition, changes in building codes and other regulations have likely contributed to higher per-unit materials costs in ways that the data in Figure 13, which focuses on specific commodities, do not reflect.

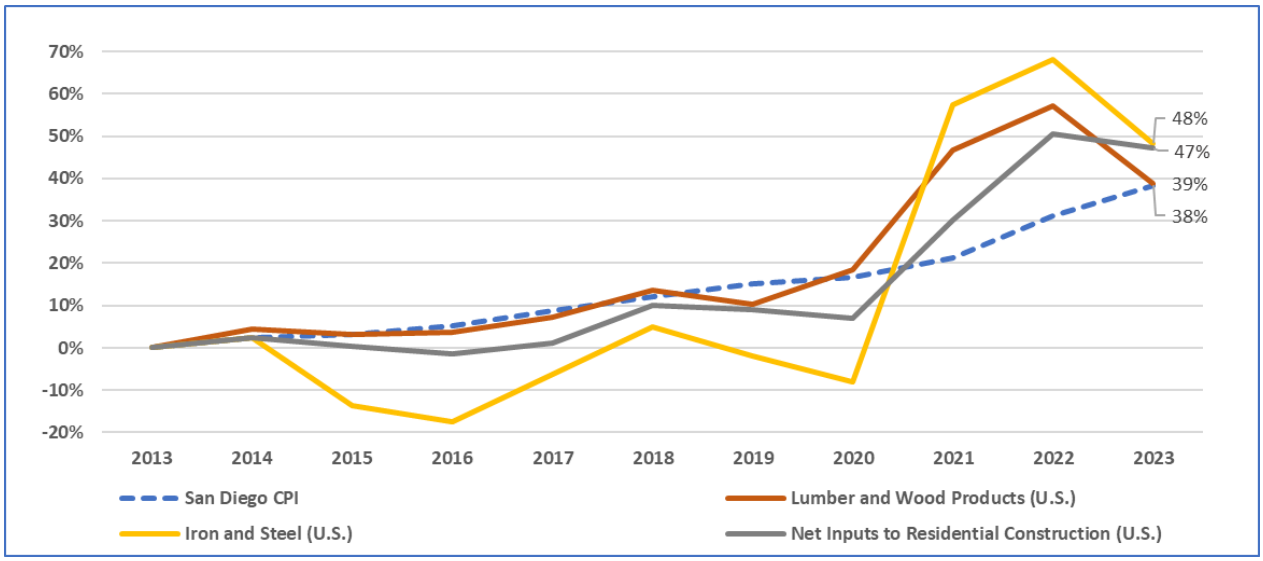
[64] *City Cost Indexes*, RSMeans (2023); *Consumer Price Index - All items in San Diego-Carlsbad, CA,* Bureau of Labor Statistics (2013 – 2023), accessed September 2023; *Consumer Price Index for All Urban Consumers: All Items in U.S. City Average*, Bureau of Labor Statistics (2013 – 2023), accessed September 2023.

[65] While BLS's PPI measures reflect nationwide price trends, they are likely an accurate representation of materials costs trends in San Diego. Whereas construction labor costs are influenced by local labor demands, California's construction firms can purchase materials from the same suppliers as firms in other states.

[66] Materials costs may be influenced by state and local tax policy and shipping and handling costs, but these impacts are less significant than overall changes due to national market conditions.

[67] RSMeans does not directly report materials or labor cost inflation over time. Instead, their CCI reports an overall index (across both materials and labor costs) for each region for each year and separately provides a percentage difference between a region's material or labor cost and the national average for each year.

Figure 13 – Change in Producer Price Index for Selected Inputs vs. San Diego CPI (2013 – 2023)[69]



Labor Costs

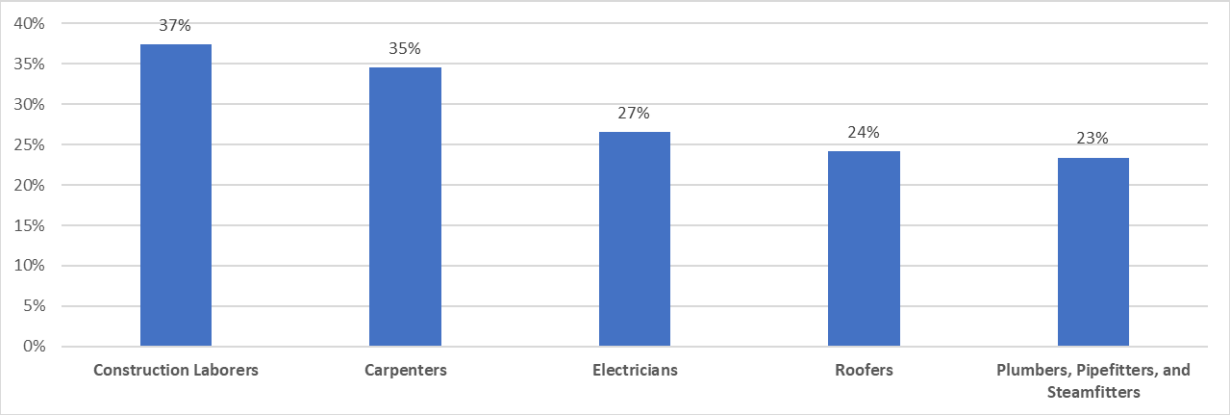
While CCI data suggest that regional materials cost inflation over the past decade has only slightly exceeded the national average, San Diego's relative labor cost increases over the Study period have been more dramatic. As of 2013, labor costs were 8% higher in San Diego than nationwide. By 2023, this differential had climbed to 23%.

The increase in labor costs associated with building new housing units can be explained by both increases in wages for individual construction sector occupations as well as increases in employee benefits and changes in the overall type and quantity of labor needed. EDD survey data that tracks wage growth in the region over the Study period suggest that wage growth for specific construction sector occupations was lower than the 61% overall hard cost inflation rate for San Diego as reported by RSMeans. Figure 14 compares growth in the average wage for selected construction sector occupations over the 2013 – 2023 period. The survey data suggest that construction sector workers, on average, experienced cumulate wage growth of 23 – 38%; construction laborers and carpenters benefited from the strongest wage growth, while roofers, plumbers, pipefitters, and steamers experienced more modest wage increases.

EDD wage data do not capture any increase in employer spending for employee benefits, such as health care or retirement plans. Given the rapidly increasing health care costs in California and nationwide, as well as the expansion of health care benefits to a wider pool of employees in the years following the enactment of the federal Affordable Care Act (ACA), actual per-employee labor cost increases over the 2013 – 2023 period likely exceeded the wage growth rates shown below.

[69] *Consumer Price Index - All items in San Diego-Carlsbad, CA*; *Producer Price Index by Commodity: Inputs to Industries: Net Inputs to New Construction, Goods*, BLS, accessed October 2023; *Producer Price Index by Commodity: Lumber and Wood Products: Lumber (WPU081)*, BLS; *Producer Price Index by Commodity: Metals and Metal Products: Iron and Steel (WPU101)*, BLS.

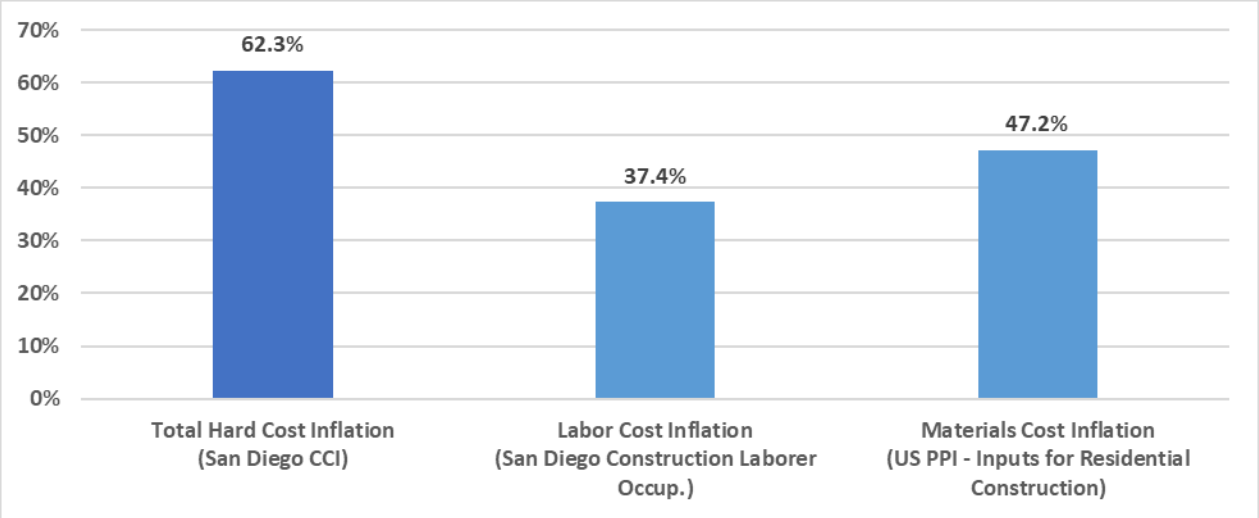
Figure 14 – Mean Wage Growth in Construction Sector Occupations – San Diego MSA (2–13 - 2023)[70]



Changes in the Composition of the Labor Force, Labor Productivity, and Construction Materials

Quantifying the cost impact of new building practices is confounded by the many influences on building design and the relative lack of data on the impact of individual changes. In addition, the various construction cost indices, such as the RSMeans CCI and BLS's PPI, do not reflect all regulatory cost impacts.[71]

Figure 15 – Total Hard Cost Inflation vs. Estimated Labor and Materials Inflation, San Diego MSA (2013 – 2023)[72]



[70] *OEWS Employment and Wage Statistics*, State of California Employment Development Department (EDD), accessed October 1, 2023.

[71] The CCI for each region is based on estimated building costs for specific building sub-structures (such as the foundation, framing, or roof) that are the same across the surveyed regions even though customer preferences and building codes vary across and within states. In some regions, this idealized residential structure may not comply with the applicable building code. For example, in California, homebuilders must install rooftop solar on all new homes (subject to limited exceptions). RSMeans data modules for single-family residential construction, however, do not include rooftop solar.

[72] *City Cost Indexes*, RSMeans (2023); *OEWS Employment and Wage Statistics*, EDD; *Producer Price Index by Commodity: Inputs to Industries: Net Inputs to New Construction, Goods*, BLS;

As summarized in Figure 15 above, the data gathered from RSMeans, BLS, and EDD and presented in the above sections suggest that the growth in prices of individual materials and labor-hours does not explain the full extent of the overall hard cost inflation over the 2013 – 2023 period. While regional CCI increased 62%, residential construction inputs increased 47% and construction laborer wages just 37%.

Several factors likely account for this discrepancy. First, with respect to increased costs associated with changes in building codes and other regulations, various data sources and industry reports suggest that these updates have likely added to costs substantially in California. As discussed in conjunction with the pro forma analysis (See "Development of Pro Forma Estimates" on page 24), building code updates adopted by the state related to energy efficiency have likely added at least tens of thousands of dollars in hard costs per unit, including new requirements for rooftop solar, EV-capable parking, on-site battery storage, and stormwater management. These cost impacts result in *changes* to the types or quantities of materials or labor used, though they may not necessarily impact the prices of materials or per-hour wages of individual occupations. Specifically, because builders are required to purchase new types of materials (e.g., enhanced building insulation, solar panels, higher-efficiency home appliances) or hire a more specialized labor force to complete construction (e.g., solar system installation professionals), total per-unit hard costs may rise by more than the increase in any individual labor or materials input.[73]

Wage data collected by the federal Bureau of Economic Analysis (BEA) for the California construction industry provides some evidence for this dynamic in California. According to the BEA, average annual wages and salaries across the entire construction sector were roughly $61,000 in 2013 and had grown to $87,600 by 2023. This 44% increase in per-worker compensation exceeds the median wage growth of the selected construction sector occupations shown above (see Figure 14), in some cases by a significant margin. In other words, more specialized and higher-wage workers likely now account for a higher share of the total construction sector workforce; this trend would explain how average wage growth across the entire sector exceeds the wage growth of any single occupation.[74]

A final explanation for the difference between overall hard cost inflation and the rates of wage and materials price growth comes from national data showing long-term declines in construction sector productivity. Between 2013 and 2022, according to the most recent BLS update on this topic, residential construction output per hour worked fell for both single-family and multi-family construction.[75] Economists have not yet reached a consensus on what factors may be causing this trend.[76] To the extent that these productivity declines have impacted the San Diego construction sector as well, labor costs per housing unit would increase at a rate higher than the rate of per-hour wage growth.

Hard Cost Inflation Accounts for Only a Portion of the Change in Home Prices

Comparison of changes in hard construction costs and home price appreciation show that home prices

[73] Note that many state code changes related to energy efficiency, while increasing construction costs, also result in lower utility bills for consumers.

[74] As explained by the White House Council of Economic Advisors, the wage growth data released by BLS reflect the "change in the average wage for private-sector workers, and so any change in the composition of who is employed affects the change in the average." A separate measure, the BLS's Employment Cost Index (ECI), tracks changes in wages controlling for any changes in workforce composition. *See* Cecilia Rouse and Martha Gimbel, "The Pandemic's Effect on Measured Wage Growth," April 19, 2021.

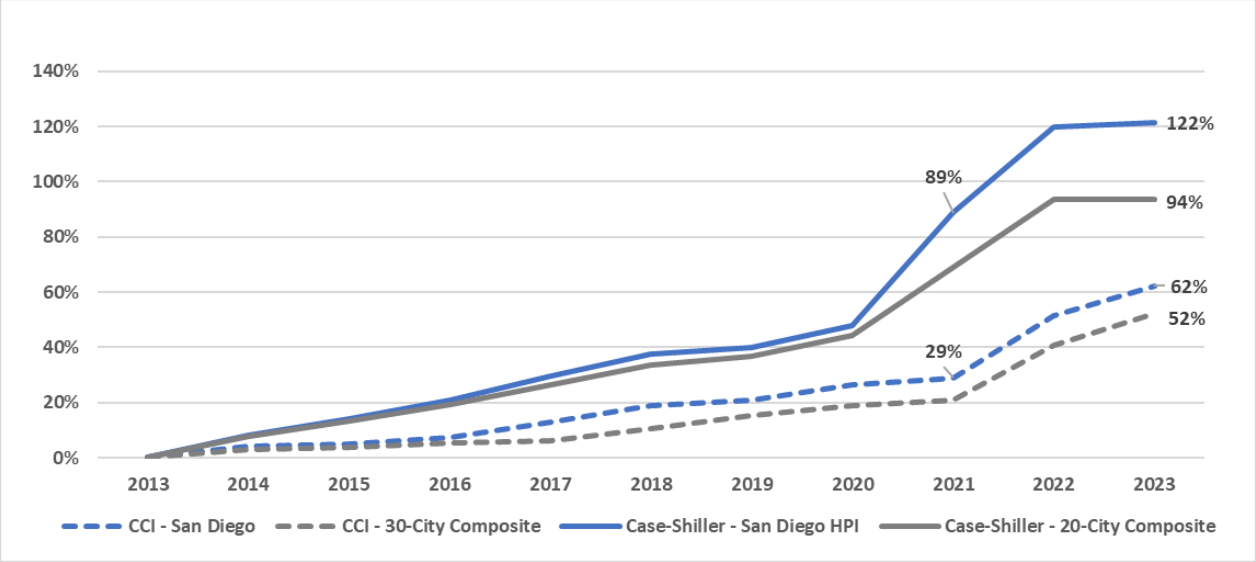
[75] *Construction Labor Productivity*, BLS, September 12, 2023. Available at: https://www.bls.gov/productivity/highlights/construction-labor-productivity.htm

[76] Austan Goolsbee and Chad Syverson, "The Strange and Awful Path of Productivity in the U.S. Construction Sector," Becker Friedman Institute, January 2023. Available at: https://bfi.uchicago.edu/wp-content/uploads/2023/01/BFI_WP_2023-04.pdf

and rents have grown far faster than the prices of labor or materials. As shown in Figure 16 below, as of 2021 (when the County commissioned this Study), home prices were up 89% over their 2013 level, as measured by the Case-Shiller Home Price Index (HPI), while San Diego's CCI had increased just 29%.[77] Over the final two years of the Study period (2021 – 2023), the gap between cumulative home price appreciation and hard cost inflation narrowed. The brief housing market downturn in late 2022, however, was very likely attributable to rising mortgage interest rates: effective housing costs for new homebuyers rose sharply over this period, as monthly interest payments on mortgages issued over the latter half of 2022 increased by more than 50% relative to payments made by buyers in the years prior.

Over the entire 10-year Study period, home price appreciation, as measured by the Case-Shiller index, was nearly double the rate of hard cost inflation as estimated by RSMeans (122% versus 62%, see Figure 16).

Figure 16 – Hard cost Inflation vs. Home Price Appreciation – San Diego and U.S. (2–13 - 2023)[78]



Another indication that hard cost inflation only partially explains housing cost increases comes from regional and national data. As shown in Figure 16, in San Diego and across the country, home price appreciation has significantly outpaced hard cost inflation. And while hard costs in San Diego rose more quickly than hard costs nationwide (i.e., 62% regionally versus 52% nationally), the difference between regional and national home price appreciation was greater still (i.e., 122% regionally versus 94% nationally).. .

5.1.2 Soft Cost Inflation Below Rate of Increase in Housing Costs Generally

The term "soft costs" encompasses all the non-land expenses that are not directly tied to the labor and materials used for the construction of the buildings. Here, soft costs are separated into three categories: permits and fees, financing costs, and other indirect costs. Taken together these soft costs have increased significantly in recent years, both in dollar terms and when compared to the general rate of inflation. The

[77] While the Case-Shiller HPI reflects price trends across existing home sales, its movement very closely tracks increases in new-construction home prices. Appendix A – Estimated Sales Prices and provides further detail on the Case-Shiller HPI. In short, the index is a very reliable indicator of housing market trends over time.

[78] RSMeans; Case-Shiller.

increase in soft costs over the past decade, however, are still lower than the rate of increase in housing prices in San Diego County and across the state.

Permits and Fees

Permits and fees include building permit and inspection fees, impact fees, and other utility fees such as water, sewer, and electrical hookup charges. Permit and inspection fees are typically charged by the county or municipality where the project is located, and are updated regularly through fee studies so that they are set at the levels necessary to fully recover the costs associated with the activities associated with issuing the permits, such as reviewing plans, conducting inspections, etc. Impact fees, such as transportation impact fees, park impact fees, fire mitigation fees, etc., are one-time charges imposed under the state's Mitigation Fee Act to mitigate impacts resulting from the development activity.[79] Impact fees are either charged by the county or city or, in some cases, by a Special District that has been established to collect such fees and provide the associated services. School impact fees are typically assessed and collected by the school district directly. Water and sanitation (wastewater) fees can include impact fees, capacity charges, and hook-up fees, and they are typically assessed and collected by the water and/or sanitation district that provides service at the building location.

Comparing these fees across different jurisdictions is not straightforward, as the fee information must be collected from each county, city, school district or special district. In addition, the basis for the fees is often inconsistent (e.g., one jurisdiction may set an impact fee for parks based on the square footage of the project, while another may set it based on the number of housing units regardless of the total size). Local jurisdictions may also reduce or waive certain fees to encourage housing in specific areas, such as in economically distressed communities, or for certain project types, such as for accessory dwelling units (ADUs) or for affordable (below-market rate) housing.

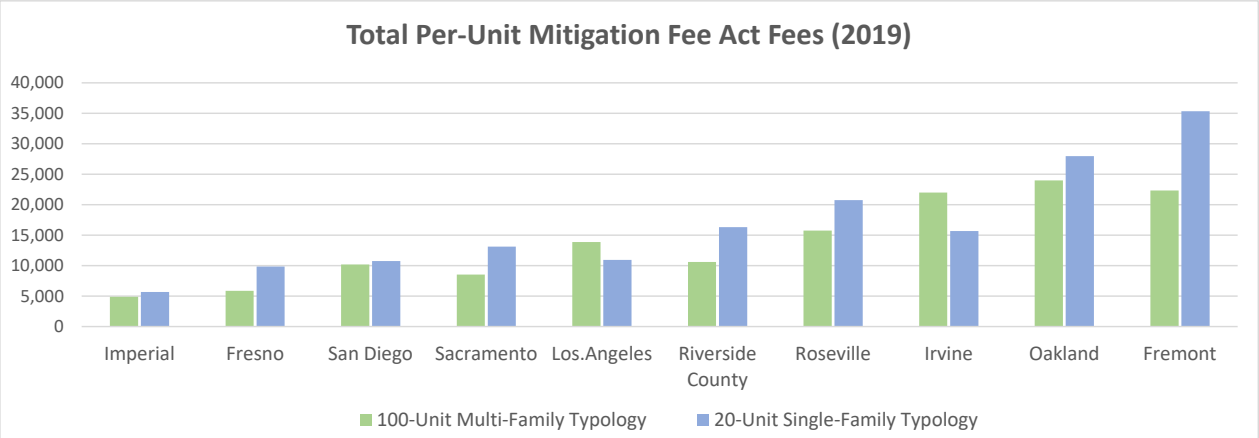
A 2019 report from the Terner Center collected information from nine cities and one county in California to investigate how impact fees differ across jurisdictions.[80] The study included just impact fees covered by the Mitigation Fee Act (MFA), which represent a subset of the total universe of residential development fees. The Terner study included impact fees for transportation, housing, parks, capital improvement, fire, and public safety, environmental, libraries, and utilities, but excluded any school fees, inclusionary housing in-lieu fees, connection fees for utilities, or any fees related to the permitting or inspection. The MFA impact fees were calculated for two typologies, a 100-unit multi-family typology and a 20-unit single-family typology. As shown in Figure 17, fees ranged from around $5,000 per unit in the City of Imperial to over $35,000 per unit for the single-family typology in the City of Fremont. The authors also pointed out that, while the fees for the single-family typology were consistently lower than the multi-family typology on a per square foot basis, on a per-unit basis the fees were higher for the single-family typology in all jurisdictions except for the cities of Los Angeles and Irvine.[81]

[79] *Residential Impact Fees in California*, Terner Center, August 15, 2019 (available at: https://ternercenter.berkeley.edu/wp-content/uploads/pdfs/Residential_Impact_Fees_in_California_August_2019.pdf)

[80] Raetz, H., Garcia, D., Decker, N., Kneebone, E., Reid, C., & Galante, C.; "Residential impact fees in California: Current practices and policy considerations to improve implementation of fees governed by the Mitigation Fee Act," Terner Center, University of California, Berkeley, 2019. Available at https://www.hcd.ca.gov/policy-research/plans-reports/docs/impact-fee-study.pdf.

[81] Ibid, 7.

Figure 17 - Terner Study Estimates of Mitigation Fee Act Fees by Typology and Jurisdiction



Source: "Residential impact fees in California: Current practices and policy considerations to improve implementation of fees governed by the Mitigation Fee Act," Terner Center, University of California, Berkeley, 2019. (p. 45).

Changes in Fees Over Time

For San Diego County, the pro forma analysis conducted as part of this New Construction Cost Study (discussed in more detail in Section 5.2: Pro Forma Analysis Results) indicates that, during the period 2013 – 2023, costs associated with permits and fees increased an average of 36% across all of the building typologies and study locations, though the percent increase varied from as low as 12% to as high as 68% depending on the specific building type and location. During this same period, housing prices increased an average of 105% across typologies and jurisdictions.

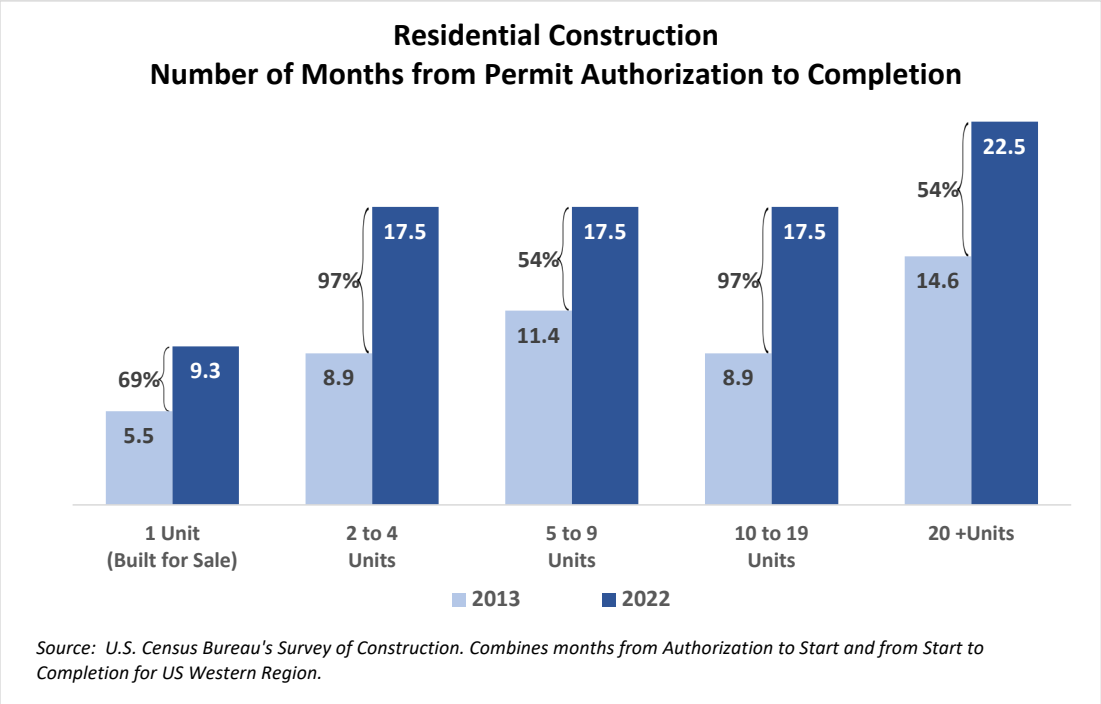
Financing Costs

Soft costs also include the financing costs incurred by a residential development project during the construction period. The financing costs depend upon the amount of financing required, the fees and interest rates charged by the lender, and the length of time for which the financing is required.

The amount of financing needed depends on the hard costs and other soft costs that must be paid during the construction period. As those prices have increased from 2013 to 2023, so has the amount of financing needed for the project; thus, the increases in hard costs and other soft costs during the Study period account for some of the increase in financing costs.

Longer construction timelines also increase financing costs. According to the U.S. Census Bureau's Survey of Construction, the average time to complete residential construction projects increased significantly over the past ten years. As shown in Figure 18, the number of months to complete one-unit projects in the Western U.S. region increased from 5.5 months in 2013 to 9.3 months in 2022, a 69% increase. The average time for projects with 20 or more units increased from 14.6 to 22.5 months, a 54% increase. Across the five project sizes summarized by the Census data, the increase in the residential construction timeline ranged from 54% for both "5 to 9 unit" and "20+ unit" projects, up to 97% for both "2 to 4 unit" and "10 to 19 unit" projects.

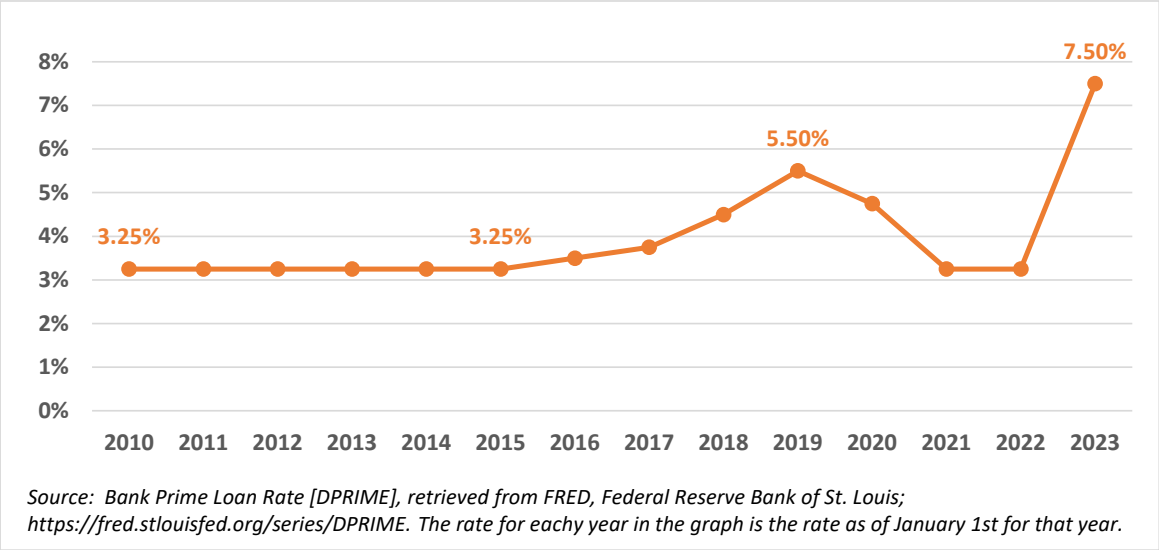
Figure 18 - Residential Construction Projects, U.S. Western Region, 2013 vs. 2022



Source: U.S. Census Bureau's Survey of Construction. Combines months from Authorization to Start and from Start to Completion for US Western Region.

Interest rates have also risen significantly from the historic lows seen in the 2010-2015 period. Figure 19 shows the "Prime Bank Rate," a rate that represents the lowest interest rate that U.S. financial institutions charge their best customers from 2010 through 2023. From 2010 through 2015, the Prime Bank Rate was just 3.25% but then rose to 5.5% by 2019 before falling back to 3.25% in 2021 and 2022. Since then, it has increased significantly as the Federal Reserve started raising interest rates in early 2022 to combat inflation. As of January 2023, the Prime Bank Rate had climbed to 7.5%, more than double its rate in January 2022. This increase in interest rates has also contributed to higher financing costs for residential construction projects.

Figure 19 - Bank Prime Loan Rate: 2010 through 2023

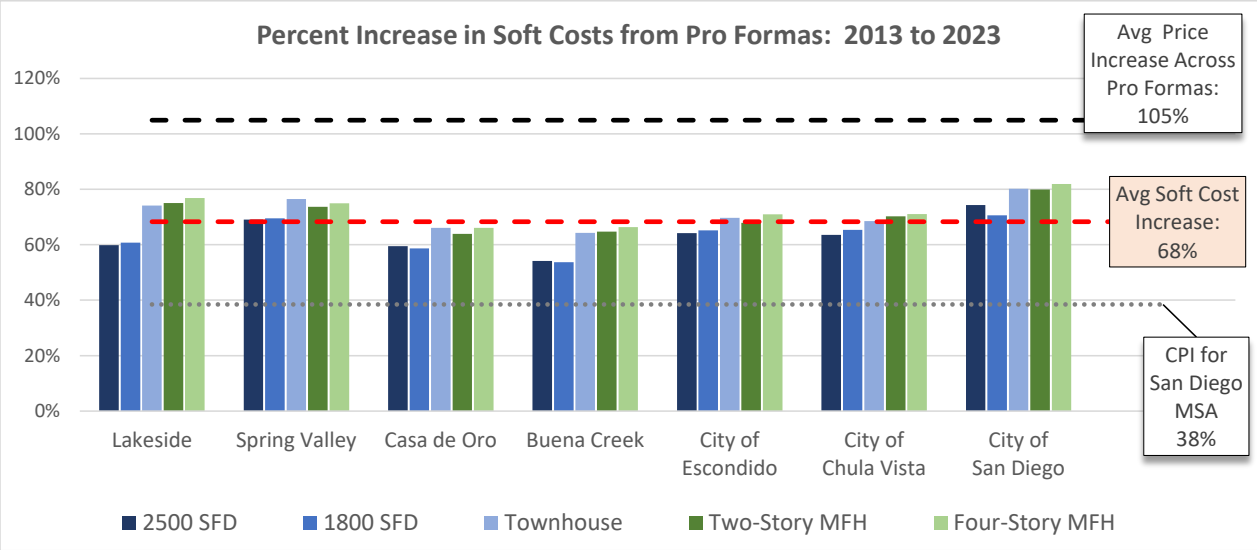


Source: Bank Prime Loan Rate [DPRIME], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/DPRIME. The rate for eachy year in the graph is the rate as of January 1st for that year.

Total Soft Costs

The pro forma analysis indicates that total soft costs in San Diego County, including all permits and fees, financing costs, and any other indirect costs, increased an average of 68% from 2013 to 2023 as shown in Figure 20.[82] This 68% increase represents the average across the building typologies and locations analyzed, with individual typologies varying between 54% and 82%. This 68% increase, while much higher than the 38% increase in inflation, is still significantly lower than the 105% increase in house prices estimated in the pro forma analysis during this same period, indicating that increases in soft costs accounted for some but certainly not all of the increase in housing prices.

Figure 20 - Soft Cost Increases from 2013 to 2023



5.1.3 Changes in Land Value

While both hard and soft construction costs have increased rapidly during the past decade, these increases alone do not explain the overall increase in new home prices (or apartment rents). The rising value of land has also contributed to the significant increase in residential development costs in the region. This result is supported by both analysis of San Diego County data as well as recent findings from the Federal Housing Finance Agency (FHFA), discussed below, and other research.[83] In fact, increases in the value of land have far exceeded both hard and soft cost inflation as well as the overall increase in new home prices.

Data from the San Diego County Assessor's Office provides a source of information on the prices paid for individual parcels of land. Data were analyzed for sales of land in the western part of San Diego County that occurred during the FY 2012-13 through FY 2021-22 period.[84] The analysis further examined parcels

[82] For additional information about the soft cost increases estimated in the pro forma analysis, see Section 5.2 Pro Forma Analysis Results on page 41.

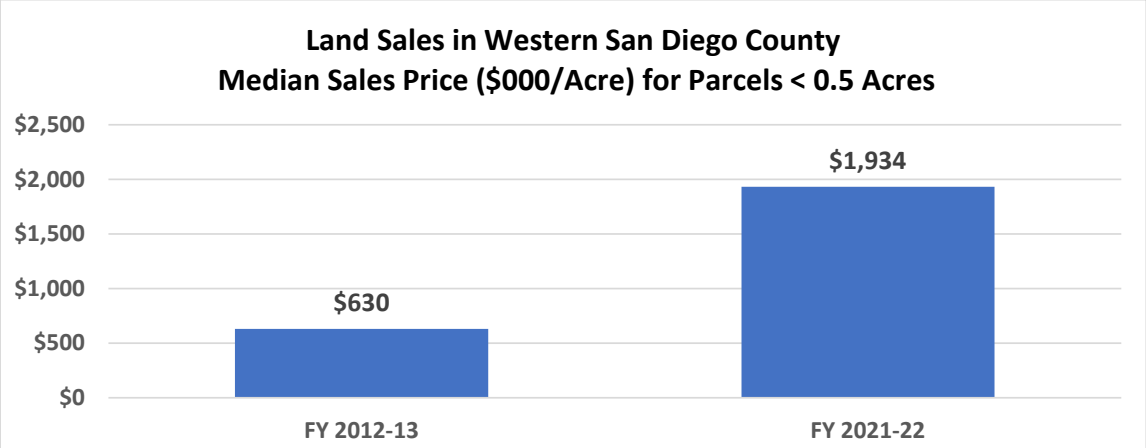
[83] The impact of land supply constraints on residential land values is well-established. See, e.g., Gyourko and Krimmel, "The Impact of Local Residential Land Use Restrictions on Land Values Across and Within Single Family Housing Markets," National Bureau of Economic Research, July 2021.

[84] To limit the data to land sales in western San Diego County, parcels where the assessed value of improvements was greater than $10,000 or 10% of the sale price were excluded; GIS coordinate data provided by the Assessor's office was used to remove parcels east of the Alpine area.

of varying sizes, from smaller parcels less than 0.5 acres to larger tracts of land of 10-50 acres.

The first phase of the analysis examined parcels less than 0.5 acres in size, comparable to the size of most single family lots. An analysis of sales data for these parcels shows that the value increased significantly during the Study period. As shown in Figure 21 below, the median sale price for such parcels was $630,000 per acre in FY 2012-13; by FY 2021-22, the median sale price had more than tripled to just over $1.9 million per acre, a rate of increase significantly higher than that of consumer goods (i.e. the CPI) or the rate of increase in hard and soft costs associated with residential development.

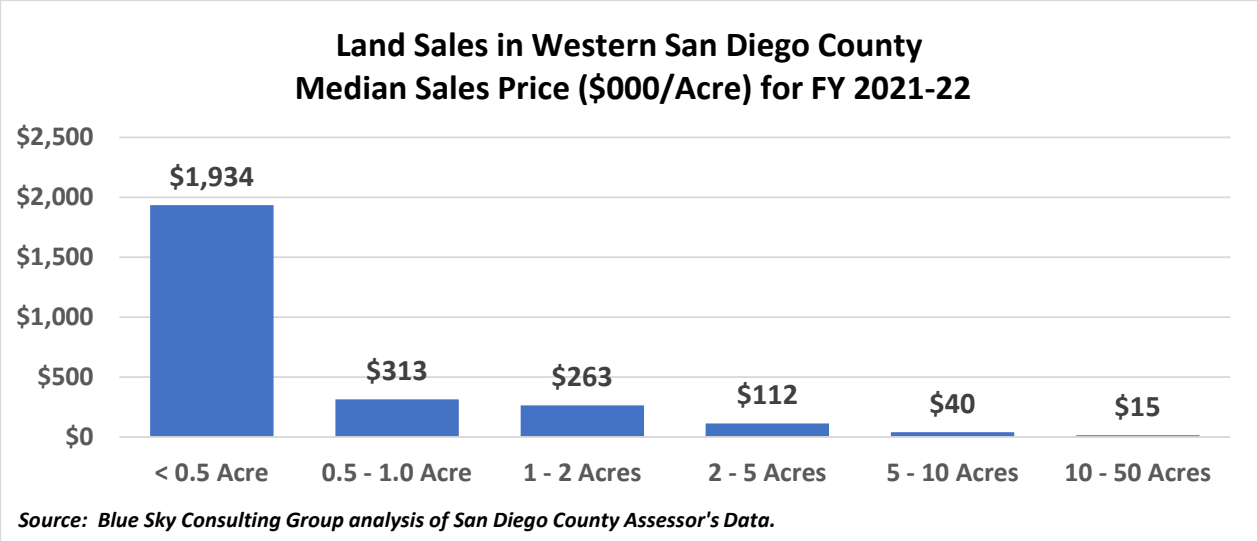
Figure 21 - Median Sale Price for Land < 0.5 Acres in Western San Diego County ($000/Acre)



Source: Blue Sky Consulting Group analysis of San Diego County Assessor's Data.

While prices for land parcels of less than 0.5 acres are reflective of the value of individual lots suitable for single family homes, large scale developments typically start with larger pieces of land that are subdivided before being developed and sold to individual homeowners. An analysis of land sales occurring in FY 2021-22 (the most recent year for which Assessor data are available) shows that the cost per acre for land decreases dramatically as the size of the parcel increases, as shown in Figure 22. The FY 2021-22 median sale price for land parcels of less than half an acre was just over $1.9 million per acre, while the median sale price for land parcels between one-half and one acre was much lower at $313,000 per acre, and the largest parcel size analyzed (10 to 50 acres) had a median sale price of just $15,000 per acre.

Figure 22 - Median Sale Price of Land in Western San Diego County by Parcel Size

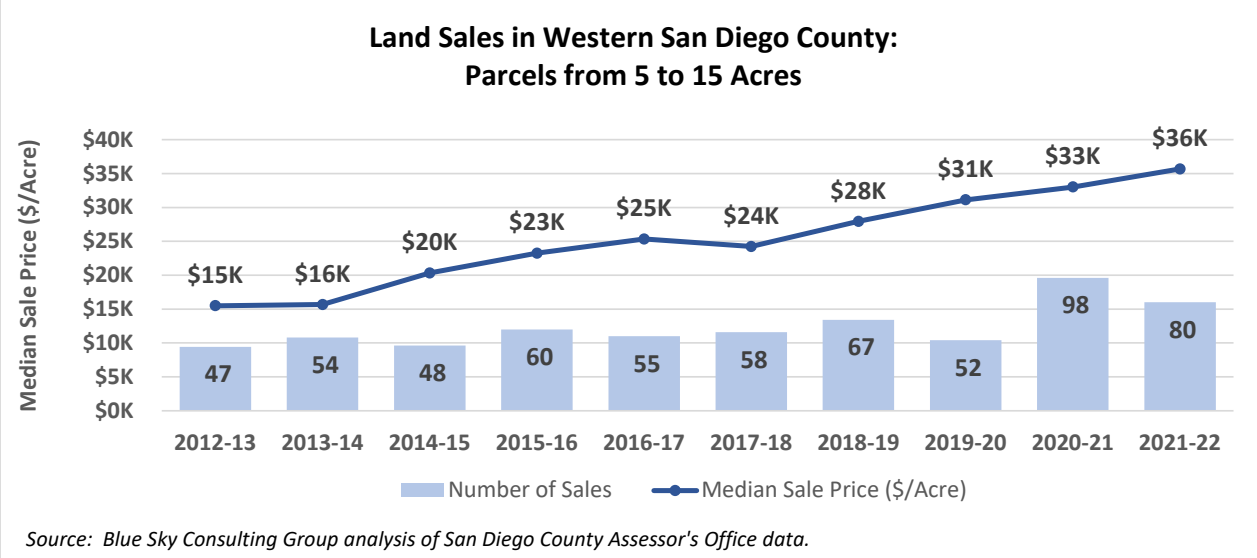


Source: Blue Sky Consulting Group analysis of San Diego County Assessor's Data.

An examination of the larger parcels in the Assessor data (parcels of 5 to 15 acres) finds that the median sale price for these larger parcels also increased significantly during the Study period, though the rate of increase was smaller than for the smaller parcels (see Figure 21). In FY 2012-13 the median price for these larger parcels was $15,000 per acre, as shown in Figure 23. By FY 2021-22, the median sale price for parcels of this size had increased to $36,000 per acre, an increase of 130% over the nine-year period.

The slower rate of increase in these larger parcels can be explained by several factors. First, these larger parcels may be located in less geographically desirable parts of the county. In addition, while these large parcels represent potentially developable land, they are much less likely to be "ready-to-build" as compared to smaller parcels. Specifically, these larger parcels are (1) less likely to be serviced by existing infrastructure, such as roads and water and wastewater utilities, and (2) would need to be subdivided prior to development as single-family housing. The discretionary review process required for such a subdivision can take years to complete and add significant costs to the process of making land ready for residential development.

Figure 23 - Median Sale Price for Land for Parcels in Western San Diego County



Source: Blue Sky Consulting Group analysis of San Diego County Assessor's Office data.

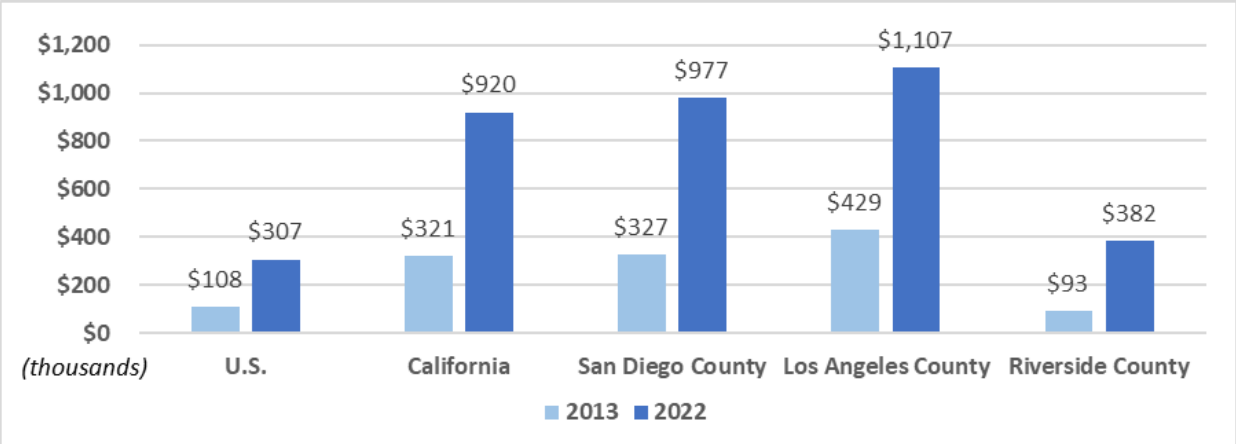
The increase in land values estimated using the San Diego County Assessor's data is further supported by previous research on residential land values. In an analysis conducted by Federal Housing Finance Agency (FHFA), the authors assessed data from millions of home appraisals conducted nationwide over a ten year period.[85] The appraisals in this dataset were issued in conjunction with each home's sale and separated a home's total property value between the value of the underlying land and the replacement value of the home structure.[86] The data thus allowed the researchers to estimate the extent to which land's share of total property values has changed over the past 10 years.

As shown in Figure 24, in San Diego County, the average value of a quarter-acre single-family residential parcel nearly tripled, from about $327,000 to more than $977,000, over the nine-year period 2013 – 2022. Land values statewide underwent a similar increase, though the spread between County land values and the statewide average widened somewhat over the Study Period (from $6,000 per quarter-acre in 2023 to $57,000 in 2023).

[85] Larson et. al, "Working Paper 19-01: The Price of Residential Land for Counties, ZIP codes, and Census Tracts in the United States," Federal Housing Finance Agency, last updated November 9, 2020; "Land Price and Land Share Indicators," American Enterprise Institute, accessed October 1, 2023. Available at: https://www.aei.org/housing/land-price-indicators/)

[86] In other words, the structure value listed in the appraisal reflects the cost of re-building the home.

Figure 24 – FHFA Estimates of ¼-Acre Land Values – San Diego and Other Regions (2013 – 2022)[87]



Overall Increases in Land Value

As the preceding analyses show, across multiple measures and geographies, land costs have increased significantly during the Study period. These increases have far outstripped the rate of inflation generally and have even outpaced the rate of increase in home prices. According to analysis of data from the San Diego County Assessor, during the study period, values for a single-family lot (i.e., a lot of less than 0.5 acres) have increased by more than 300%, far above the 38% increase in consumer prices as measured by the CPI or the 122% increase in home prices reported by the Case-Shiller Index.

5.1.4 Number of New Units Has Not Kept Pace with Demand

Long Run Population and Housing Stock Trends

According to EDD, total employment in the San Diego MSA rose roughly 8% between 2013 and 2018. While employment declined during the COVID-19 economic downturn, employment had once again exceeded its pre-pandemic highs by 2022.

As more jobs—and better-paying jobs—are created in the San Diego region, more residents look for housing, particularly in neighborhoods close to the County's urban core, where these jobs are predominantly located. For over a decade, however, the pace of homebuilding in the region has not kept pace with this added demand, both in unincorporated areas and incorporated cities. In the nine-year period 2010 – 2019 (i.e., the period preceding the state and County populations reaching their peak level before declining) the County population increased 7.7% while the number of housing units countywide increased just 4.8%. In the unincorporated areas, the population increased 4.2% while the housing stock increased just 2.9%.[88] Rising home prices over this period led to some residents taking on additional roommates or living with family, as persons per household increased 2.8% countywide and 1.2% in the unincorporated areas over the 2010 – 2019 period.

Widespread adoption of remote work practices in more recent years has only increased pressures on the housing stock, particularly in neighborhoods farther from job centers, as many employees working remotely converted home space to office space. Countywide over the 2019 – 2023 period, despite an increase in total housing units, the population dropped nearly 2% as persons per household dropped

[87] FHFA, AEI.

[88] *American Community Survey*, U.S. Census, 2010 – 2019.

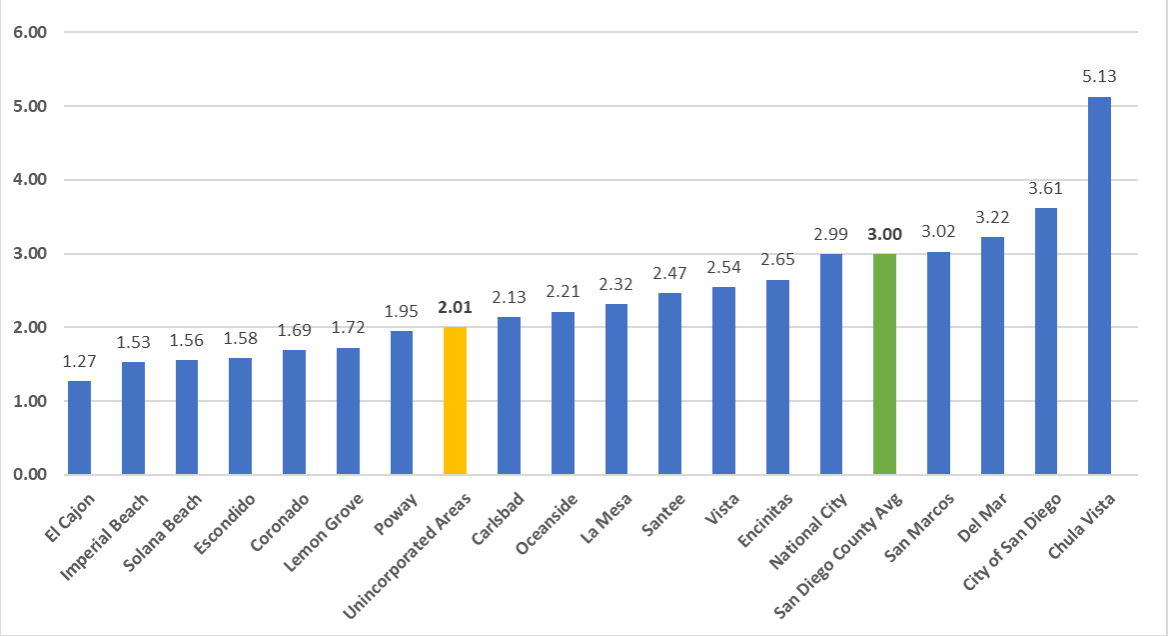
4.8%.[89] Ultimately, housing market pressures have led to hundreds of thousands of Californians leaving the state, with the state population dipping below 39 million in 2023, its lowest level since 2015.[90]

Recent Permitting Activity in the Unincorporated Areas and Countywide

Figure 25 compares rates of housing permit activity across San Diego County, as reported by the state Department of Housing and Community Development (HCD). Over the five-year period covering calendar years 2018 – 2022, San Diego County issued 1,018 housing unit permits per year, on average, or roughly two units per 1,000 unincorporated area residents. Across all jurisdictions, the annual average was three units per 1,000 residents, though as shown, there was wide variation across cities. Chula Vista has been the most active permitting jurisdiction on a per capita basis in recent years, issuing 5.13 housing units per 1,000 residents. The countywide rate of production over the five-year period (3.00 units per 1,000 residents) was just below the statewide average of 3.12. California's statewide housing production was the thirteenth lowest across the 50 states, and significantly lags the national average of 5.3 units per 1,000 residents.[91]

While the County's permitting activity relative to the incorporated cities has increased in recent years, over the two-year 2021 – 2022 period, the County issued 2.87 permits per 1,000 residents, compared to a countywide average of 3.57. Permits for Accessory Dwelling Units (ADUs) accounted for 22.5% of all permits in 2022, up from 10.7% in 2018.

Figure 25 - Housing Units Permitted Annually per 1,000 Residents (2018 – 2022 average)[92]



[89] For detail, see "Shrinking Household Size Strains California's Housing Market," Public Policy Institute of California, November 17, 2022.

[90] "California's persistently shrinking population — and the reasons why," CalMatters, February 17, 2023.

[91] "California housing shortage triggers cycle of despair," CalMatters, January 23, 2023.

[92] Blue Sky Consulting Group analysis of *Housing Element Annual Progress Report (APR) Data by Jurisdiction and Year*, California Department of Housing and Community Development, accessed August 1, 2023. Available at: https://data.ca.gov/dataset/housing-element-annual-progress-report-apr-data-by-jurisdiction-and-year.

5.1.5 Time to Approval for Discretionary Applications and Building Permit Applications Has Increased

One of the potential drivers of changes in residential development cost is the time and uncertainty associated with land entitlement and building permit approval. For unincorporated San Diego County, changes in the development timeline over the Study period were estimated using discretionary development application data and building permit data. Analysis of the County's historical building permit data shows that both the time from building permit application to approval and the time from permit approval to project completion has increased since 2013. This may have been caused by several factors, including the disruptions caused by the COVID-19 pandemic and the increase in permitting activity over the Study period, during which the number of permit applications issued increased from an average of 468 per year from 2013-2017 to 1,112 per year during the 2018-2022.

Analysis of data for discretionary applications (Tentative Maps, Tentative Parcel Maps, and Site Plans) are less conclusive, but do show a decrease in both the number of approved applications and the number of associated units, as well as a general increase in the time from application to approval since 2013. Some of the time increases may be attributable to the COVID-19 pandemic which began in 2020, though the most recent periods have not yet shown a return to pre-pandemic levels.

Discretionary Development Applications

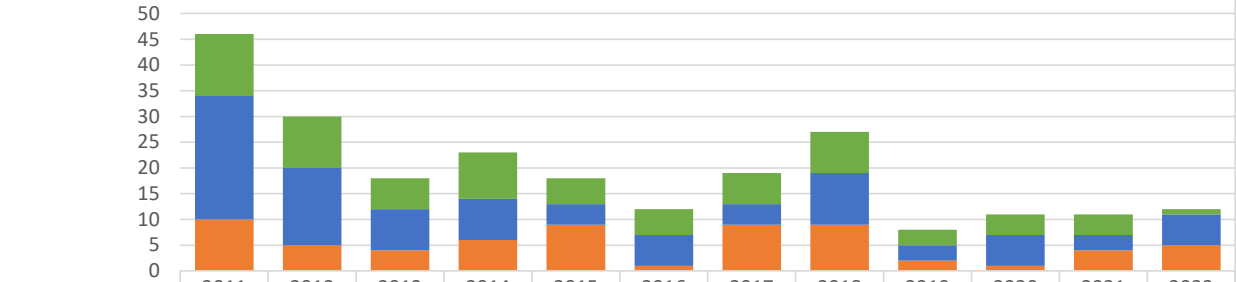
Discretionary applications for residential development vary from administrative permits and boundary adjustments to large complex projects that subdivide a large parcel of land into multiple smaller residential parcels. The analysis presented here focuses on the three types of discretionary development applications that include dwelling units associated with the buildout of the County's General Plan:[93]

- ***Tentative Maps*** are the subdivision of a lot or lots into five lots or more.
- ***Tentative Parcel Maps*** are the subdivision of a lot or lots into four or fewer lots.
- ***Site Plans*** do not subdivide lots; rather, they are permits that regulate physical design, siting, and vehicular/pedestrian access. Site plans have housing types that include multi-family.

While the number of discretionary approvals varies from year to year, the annual number of Tentative Map, Tentative Parcel Map, and Site Plan approvals in unincorporated San Diego County has decreased considerably since 2011, as shown in Figure 26. The total number of approvals across the three categories was 46 in 2011. Between 2012 and 2018, the number of approvals fluctuated between a low of 12 approvals in 2016 and a high of 27 approvals in 2018. By 2019, approvals fell to their lowest annual level of just 8, and they have stayed at 12 or fewer through 2022. Most notable is the number of approvals for Tentative Maps, which had only three approvals in 2019, the lowest number throughout the Study period. Since then, Tentative Map approvals have remained below levels seen prior to 2019, with only four approvals in 2020 and 2021, and just one in 2022.

[93] Note that the analysis does not include applications for modifications or time extensions for previously approved applications.

Figure 26 - Unincorporated San Diego County Discretionary Application Approvals

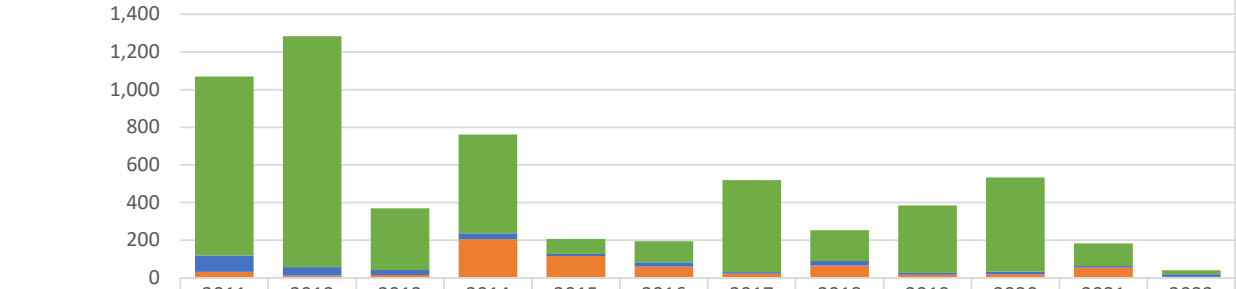


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Tentative Map	12	10	6	9	5	5	6	8	3	4	4	1
Tent Parcel Map	24	15	8	8	4	6	4	10	3	6	3	6
Site Plan	10	5	4	6	9	1	9	9	2	1	4	5
TOTAL	46	30	18	23	18	12	19	27	8	11	11	12

Source: Blue Sky analysis of San Diego County PDS Building Services Data.

The number of dwelling units associated with these approvals has also declined since 2011, as shown in Figure 27. The number of dwelling units associated with discretionary approvals can also vary considerably from year to year, as a single Tentative Map for a large residential development project can result in hundreds of new lots for single-family homes. In 2011 and 2012 discretionary approvals represented more than a thousand new housing units, while the number of units associated with approvals during most years since then have represented far fewer units. In 2021 there were fewer than 200 new units associated with all discretionary approvals, and in 2022 the approvals represented only 40 new units.

Figure 27 - Unincorporated San Diego County Dwelling Units Associated with Discretionary Approvals



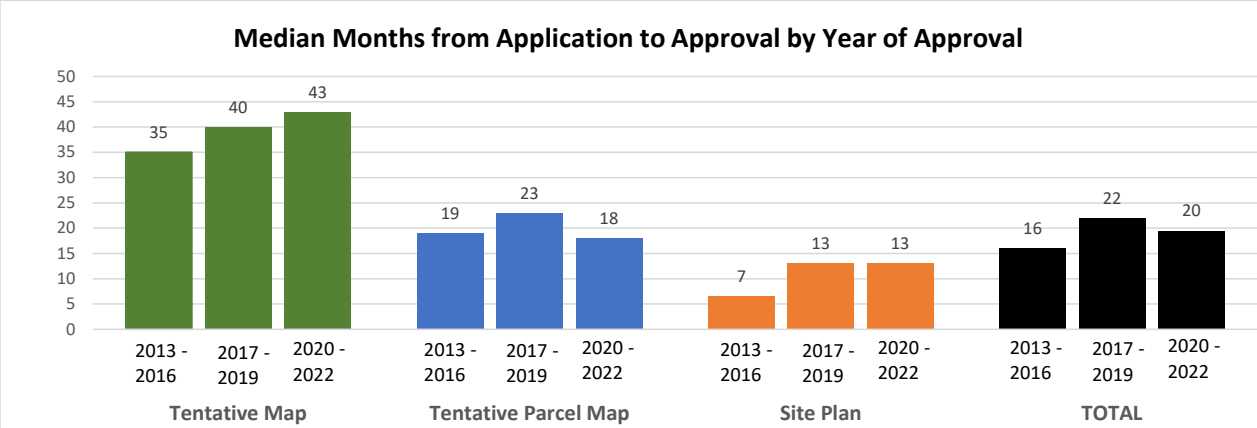
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Tentative Map	951	1,226	327	525	79	112	489	164	359	499	120	20
Tent Parcel Map	87	46	26	31	12	22	9	24	9	14	9	15
Site Plan	32	12	16	206	116	60	22	66	17	20	54	5

Source: Blue Sky analysis of San Diego County PDS Building Services Data.

Over the period from 2013 to 2022, the median time from application to approval for the three types of discretionary applications was 19 months, though this varied considerably by type of application. The median time for approval of Tentative Maps was the longest at 40 months, while the median for Tentative Parcel Maps was about half that at 21 months, and for Site Plans the median was 11 months.

To analyze how these times have changed since 2013, approvals were grouped into three time periods: 2013-2016, 2017-2019, and 2020-2021. As shown in Figure 28 below, Tentative Map approvals increased from 35 months in the 2013-2016 period to 43 months in 2020-2022 period. Tentative Parcel Map approvals rose from 19 months in the early period to 23 months in the 2017-2019 period, before decreasing to 18 months in 2020-2022. The median time to approve Site Plans rose from 7 months at the beginning of the period to 13 months in both 2017-2019 and 2020-2022. Taken together, the median time to approve the three types of discretionary applications rose from 16 months in 2013-2016 to 22 months in 2017-2019 before falling slightly to 20 months in the 2020-2022 period.

Figure 28 - Unincorporated San Diego County Time from Discretionary Application to Approval



Source: Blue Sky analysis of San Diego County PDS Building Services Data.

Building Permit Applications

Analysis of building permit data show that, while the number of permits has increased over the Study period, the time from application to permit issuance has increased while the share of permits approved within 180 (calendar) days has declined.

Building permit data were provided by the County's PDS Building Services Division and include permits for new housing units approved from 2013 through the end of February 2023. As shown in Figure 29, both the annual number of permits issued and the number of associated housing units increased considerably from 2013, when 382 permits were issued for 402 housing units, through 2022, when 1,217 building permits were issued for 1,512 units. The number of permits for different project types varied considerably by year, with most of the projects representing either stand-alone single-family homes or the "tract master" or "tract phase" permits associated with larger developments of single-family homes. The number of ADU permits issued annually increased significantly over the period, with fewer than 40 permits annually from 2013 through 2017, increasing to over 300 issued in both 2021 and 2022. Across the ten-year period there were a total of 7,901 building permits issued for a total of 8,921 new housing units.

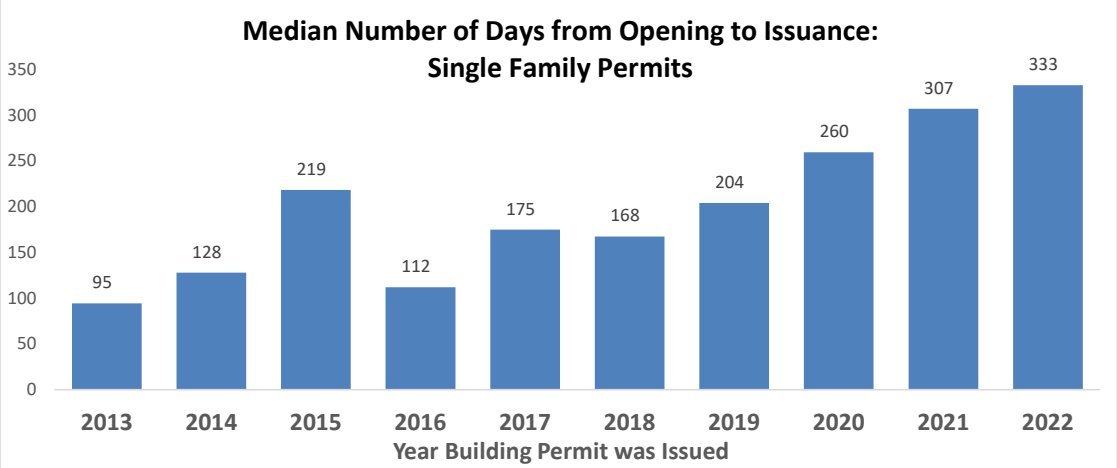
Figure 29 - Unincorporated San Diego County Residential Building Permits Issued

Project Type by Year Issued	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Total	5-yr Averages 2013-'17	5-yr Averages 2018-'22
Single Family	168	244	138	144	277	272	220	172	227	249	2,111	194	228
Single Family - Tract Master	19	16	5	5	21	17	15	29	42	5	174	13	22
Single Family - Tract Phase	154	204	18	82	330	564	494	433	584	504	3,367	158	516
Duplex/Triplex	0	11	0	0	11	0	0	4	1	4	31	4	2
Multi - Apt/Condo	2	28	1	11	9	3	7	17	16	43	137	10	17
ADU/Guesthouse	17	24	13	1	36	110	164	183	304	318	1,170	18	216
Mobile Home/Rebuild/Other	22	54	21	133	123	112	131	104	117	94	911	71	112
TOTAL PERMITS ISSUED	**382**	**581**	**196**	**376**	**807**	**1,078**	**1,031**	**942**	**1,291**	**1,217**	**7,901**	**468**	**1,112**
TOTAL ASSOCIATED UNITS	**402**	**715**	**211**	**503**	**866**	**1,165**	**1,122**	**984**	**1,441**	**1,512**	**8,921**	**539**	**1,245**

Source: Blue Sky analysis of San Diego County PDS Building Services Data.

The building permit data included three milestone dates: the "Opened Date" when the application was first opened with the County, the "Issued Date" when the permit was issued, and a "Completed Date" for those projects that had been completed. The timing of the building permit approvals for "Single Family" projects (see Figure 30), shows that the median number of days from permit application to permit issuance increased from 95 days in 2013 to 333 days for permits issued in 2022.[94]

Figure 30 - Unincorporated San Diego County Timing for Building Permits Issued

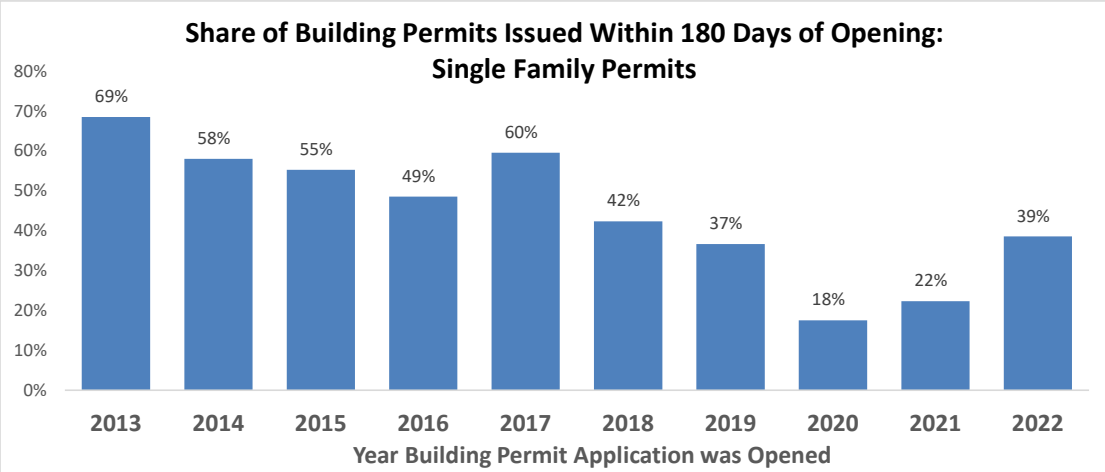


Source: Blue Sky analysis of San Diego County PDS Building Services Data.

Figure 30 shows the share of building permits that were issued within 180 days of the application date. As shown in the graph, 69% of the single-family building permits that were opened in 2013 were issued within 180 days. This rate fell to 37% by 2019, just before the COVID-19 pandemic began. In 2020 and 2021 the percent of newly opened permit applications that were approved within 180 days fell to their lowest points (18% and 22%, respectively) before rebounding to 39% in 2022.

[94] The "Single Family - Tract Master" and "Single Family -Tract Phase" permits were excluded from the analysis because more than 98% of such applications were recorded as being issued on the same day as the permit application was opened.

Figure 31 - Unincorporated San Diego County Share of Building Permits Issued Within 180 Days



Source: Blue Sky analysis of San Diego County PDS Building Services Data.

Comparing County's Approval Timelines to Timelines in Other Jurisdictions

Reliable comparison of the County's entitlement and permitting timelines to timelines in other jurisdictions is not currently possible. The County reported issuing 583 unique entitlements for 614 units over the 2018 – 2022 timeline (though all these reported entitlements occurred in 2019 or 2020). To determine an average County entitlement timeline, it is necessary to match the date of a housing application to the date that a jurisdiction entitles the project.[95] Only two of these reported entitlement decisions, however, could be linked to any of the housing applications reported to HCD over this period.

Similarly, the County reported issuing 4,505 building permits for the construction of 5,149 units over the 2018 – 2022 period, but only 21 of these permits could be matched to a prior application due to lack of available data.

Statewide, for most jurisdictions, there are similar challenges matching permit or entitlement dates to prior application dates. Detailed analysis of data collected for all jurisdictions in San Diego, Los Angeles, Riverside, San Bernardino, Ventura, and Orange counties generated application date matches for only 12% of permits and 19% of entitlements reported to HCD.

5.2 Pro Forma Analysis Results

By examining five specific building typologies across seven Study locations in both 2013 and 2023, the pro forma analysis provides insights into not only the current costs of building different types of housing units in various incorporated and unincorporated locations within San Diego County, but also how those costs have changed over time. Over the 2013-2023 Study period, the pro forma analysis confirms that increases in hard costs and soft costs, while higher than general inflation, do not fully account for the increase in housing costs. The CPI for the San Diego region increased 38% over the ten-year period, while housing prices rose 105% on average across the typologies and locations analyzed. Pro forma results indicated that the average increase in hard costs and soft costs was 54% and 68%, respectively, much higher than overall inflation but also much lower than the increase in housing prices. Permits and fees (a component of soft costs often cited as a cause of increasing development costs) increased by an average

[95] Entitlement decisions may be linked to an entitlement application if the housing units share a common parcel number or street address.

of 36%, closely tracking general inflation. Overall, hard costs accounted for 31% of the overall housing cost increase, soft costs accounted for 21%, and land costs accounted for 48% when averaged across all typologies and Study locations.

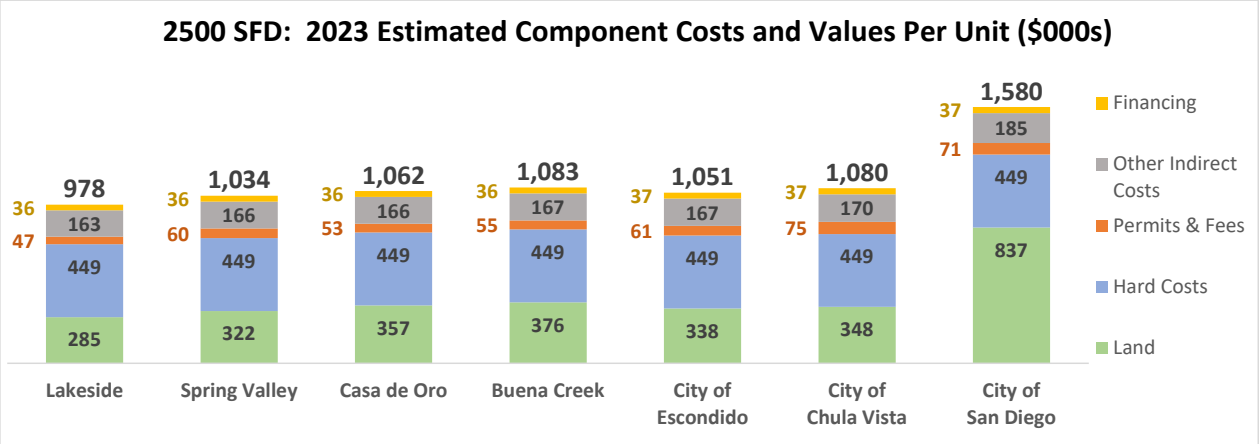
The pro forma analysis also illustrates how the density of residential development affects the price of land, not only in terms of the cost per acre but also in terms of the cost per housing unit and the share of overall costs represented by land. Higher density projects typically have lower per-unit land costs, as the cost of that land can be spread across more housing units. Higher density projects also typically have higher per-acre land costs.

The next section provides a detailed examination of the 2500 SFD typology, which represents the most common type of recent development in unincorporated San Diego County. The next section presents an overview of the typologies and Study locations. The detailed pro formas for every typology and Study location are provided in Appendix B – Pro Forma Analysis Detail.

5.2.1 Pro Forma Results: Detail for 2500 SFD Typology

The 2500 SFD typology represents a building type that closely resembles the most common type of housing being built in unincorporated San Diego County. As shown in Figure 32, the estimated 2023 sales prices for the 2500 SFD typology are close to $1 million for most of the jurisdictions, ranging from $978,000 ($391/SqFt) in Lakeside to $1.08 million ($433/SqFt) in Buena Creek. The highest sale price among the Study locations is the City of San Diego at $1.58 million ($632/SqFt). Estimated hard costs for the 2500 SFD typology in 2023 are similar across the Study locations at $449,000 per unit; construction financing costs are also relatively consistent across geographies at about $36,000 to $37,000 per unit. Permits and fees have more variation, from a low of $47,000 per unit in Lakeside to $75,000 per unit in the City of Chula Vista. Other indirect costs varied from $163,000 in Lakeside to $185,000 in the City of San Diego. The 2023 residual land value estimates had the largest variation, with a low of $285,000 per unit in Lakeside to a high of $837,000 in the City of San Diego. At a density of 5 units per acre, this corresponds to values ranging from $1.4 million to $4.2 million for an acre of land that is entitled and ready for residential development.

Figure 32 - Component Cost Estimates for 2500 SFD Typology



Between 2013 and 2023, the estimated sale price for the 2500 SFD typology increased significantly, as shown in Figure 33 below. Lakeside, which increased from $568,000 to $978,000, had the smallest percent increase at 72%. Other unincorporated Study locations increased from less than $600,000 per unit in 2013 to over $1,000,000 by 2023, with Spring Valley having the largest percent increase among the unincorporated locations (98%). Results for the three incorporated cities showed significant increases

in price as well over the ten-year period, from 88% in the City of Escondido to 106% in the City of San Diego. Across the seven Study locations, the 2500 SFD typology cost increases ranged from just over $400,000 to just over $800,000 per unit.

These significant cost increases resulted from increases in hard costs, soft costs, and the cost of land. Across all the Study locations hard costs increased by $156,000, an increase of 53%. Of this amount, roughly $11,000 was attributable to major amendments to the state building codes over the 2013 – 2023 period:

- As of the 2019 building codes update, new residential development must include rooftop solar under. The minimum installation size for the 2500 SFD is an estimated 3.0 kW, at a cost (after federal tax credits) of over $4,000. Other prior updates to energy efficiency requirements, according to the California Energy Commission, added roughly $2,700 in costs per new single-family unit.
- New electric vehicle charging requirements impose nearly $2,000 in added hard costs.
- Costs imposed by construction-phase stormwater management regulations vary substantially across project sites, but would typically add at least $10,000 in costs per acre of development (or $2,000 per new 2500 SFD).

For further detail on costs imposed by new state regulations, see “Appendix C: Hard cost estimate methodology” for detail).

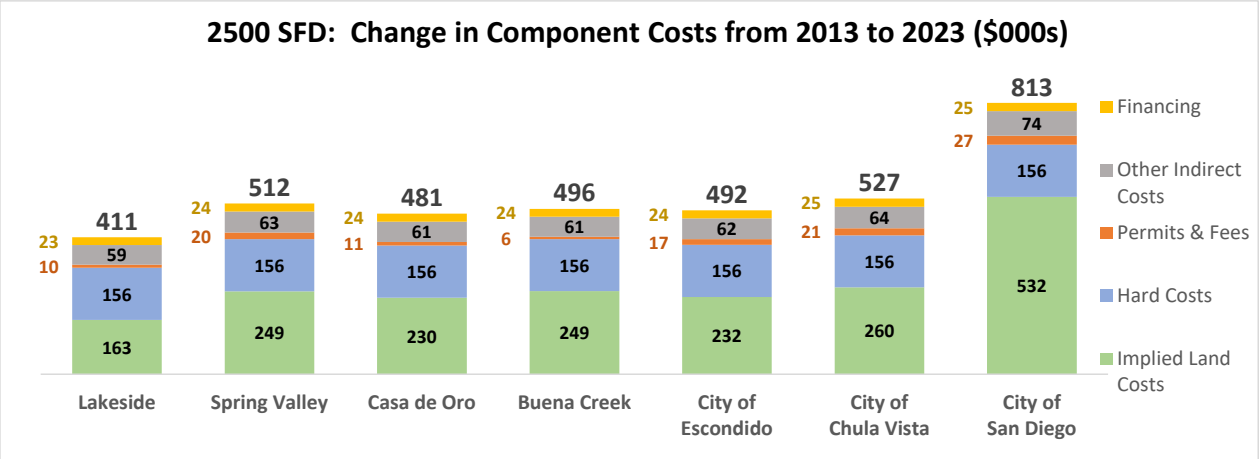
The increase in permits and fees varied across locations, from $6,000 in Buena Creek to $27,000 in the City of San Diego. Due to higher interest rates and longer construction schedules, financing costs increased by almost 200% from around $12,000 to per unit in 2013 to $36,000 per unit in 2023, representing an average increase of about $24,000 over the Study period. Other indirect costs increased by $59,000 to $754,000 depending upon the location, representing increases of 56% to 66%.

Figure 33 - Cost Per Unit Changes from 2013 to 2023 for the 2500 SFD Typology ($000)

	Lakeside	Spring Valley	Casa de Oro	Buena Creek	City of Escondido	City of Chula Vista	City of San Diego
2013 Total Costs	568	521	580	587	560	553	766
2023 Total Costs	978	1,034	1,062	1,083	1,051	1,080	1,580
Change ($000)	411	512	481	496	492	527	813
Change (%)	72%	98%	83%	84%	88%	95%	106%
Cost Components							
2013 Hard Costs	293	293	293	293	293	293	293
2023 Hard Costs	449	449	449	449	449	449	449
Change ($000)	156	156	156	156	156	156	156
Change (%)	53%	53%	53%	53%	53%	53%	53%
2013 Permits & Fees (Soft Cost)	37	40	43	48	44	54	45
2023 Permits & Fees (Soft Cost)	47	60	53	55	61	75	71
Change ($000)	10	20	11	6	17	21	27
Change (%)	26%	49%	25%	13%	39%	39%	60%
2013 Financing Costs (Soft Cost)	12	12	12	13	12	13	12
2023 Financing Costs (Soft Cost)	36	36	36	36	37	37	37
Change ($000)	23	24	24	24	24	25	25
Change (%)	193%	198%	192%	188%	195%	195%	200%
2013 Other Indirect Costs (Soft Cost)	104	103	105	106	105	106	111
2023 Other Indirect Costs (Soft Cost)	163	166	166	167	167	170	185
Change ($000)	59	63	61	61	62	64	74
Change (%)	56%	61%	58%	57%	59%	60%	66%
2013 Total Soft Costs	153	155	160	167	161	173	168
2023 Total Soft Costs	245	263	255	258	264	283	293
Change ($000)	92	107	95	91	103	110	125
Change (%)	60%	69%	59%	54%	64%	64%	74%
2013 Implied Land Costs	122	73	127	127	106	87	305
2023 Implied Land Costs	285	322	357	376	338	348	837
Change ($000)	163	249	230	249	232	260	532
Change (%)	134%	339%	180%	196%	219%	298%	174%

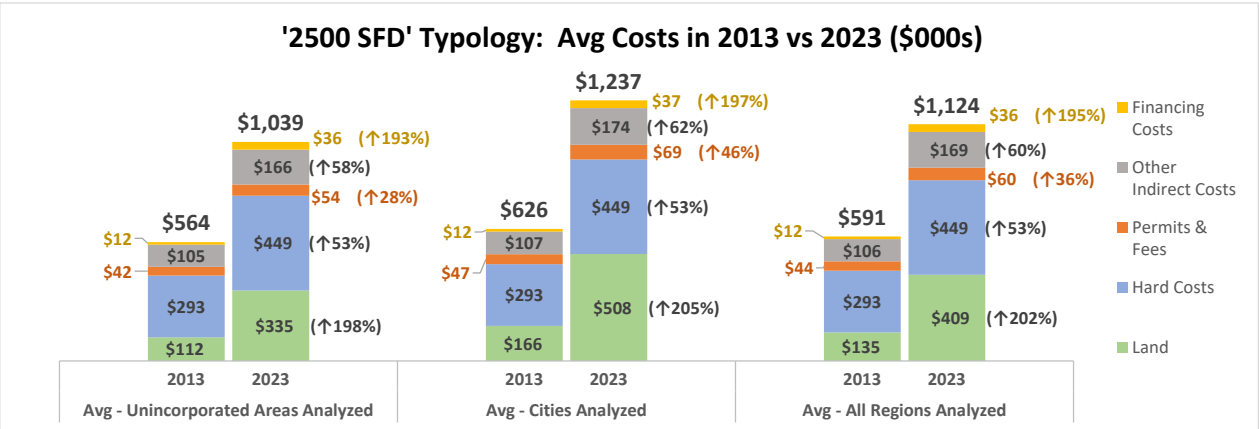
Taken together, the hard costs and soft costs account for between 35% and 60% of the overall increase in total costs observed during the Study period. The remaining increase (i.e., 65% to 40% of the price change) is due to the increase in land costs. The per-unit cost increases for land ranged from $163,000 in Lakeside to $532,000 in the City of San Diego. In percentage terms, the estimated land cost increases ranged from 134% in Lakeside to 339% in Spring Valley. Figure 34 shows the total dollar increase in cost for the 2500 SFD typology across the seven Study locations as well as the dollar increase attributable to each cost component.

Figure 34 –Changes in Costs from Pro Forma Analysis for 2500 SFD Typology



The pro forma results indicate some differences between the unincorporated locations and the cities, as summarized in Figure 35. In dollar terms, the average cost of land in 2013 was higher in the cities ($166,000 per unit) than in the unincorporated Study locations ($112,000 per unit). Between 2013 and 2023 land costs increased about 200% in both the incorporated and unincorporated locations. Permits and fees were initially higher in the cities ($47,000 per unit vs. $42,000 for unincorporated areas) and had a higher percentage increase in the cities, with a 46% average increase in the cities vs. a 28% average increase in the unincorporated locations.

Figure 35 - 2500 SFD Typology Components of Cost - 2013 vs 2023



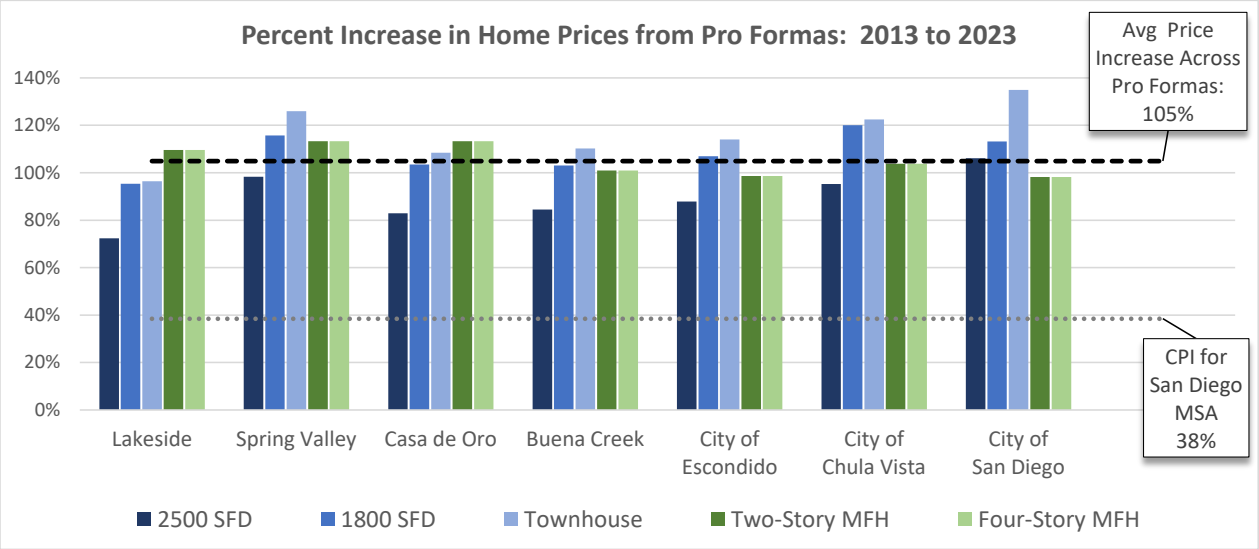
5.2.2 Pro Forma Results: Overview Across Typologies

For all the typologies across every Study location, the increase in home prices over the Study period far exceeded the general rate of inflation.[96] The average increase across typologies and locations was 105% over the ten-year period, with individual estimates ranging from 72% for the 2500 SFD typology in Lakeside to 135% for the Townhouse typology in the City of San Diego. For the three for-sale typologies, the percent increase in the 2500 SFD typology was consistently the lowest, and the Townhouse typology was consistently the highest, as shown in Figure 36. For the two for-rent typologies, the increase in value

[96] For the purposes of this discussion, the term "home prices" refers to the sale price of the three for-sale typologies and to the capitalized Net Operating Income (NOI) for the two rental typologies.

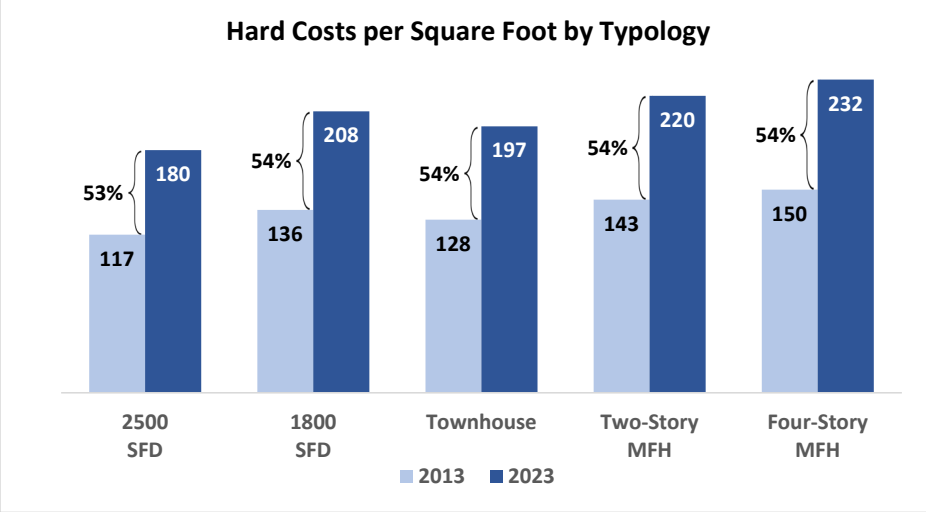
over the period varied by the increase in rents across the different Study locations, with the unincorporated communities generally experiencing greater percent increases in rent than the three incorporated cities.

Figure 36 - Increase in Home Prices in Pro Forma Analysis Far Exceeded the General Rate of Inflation



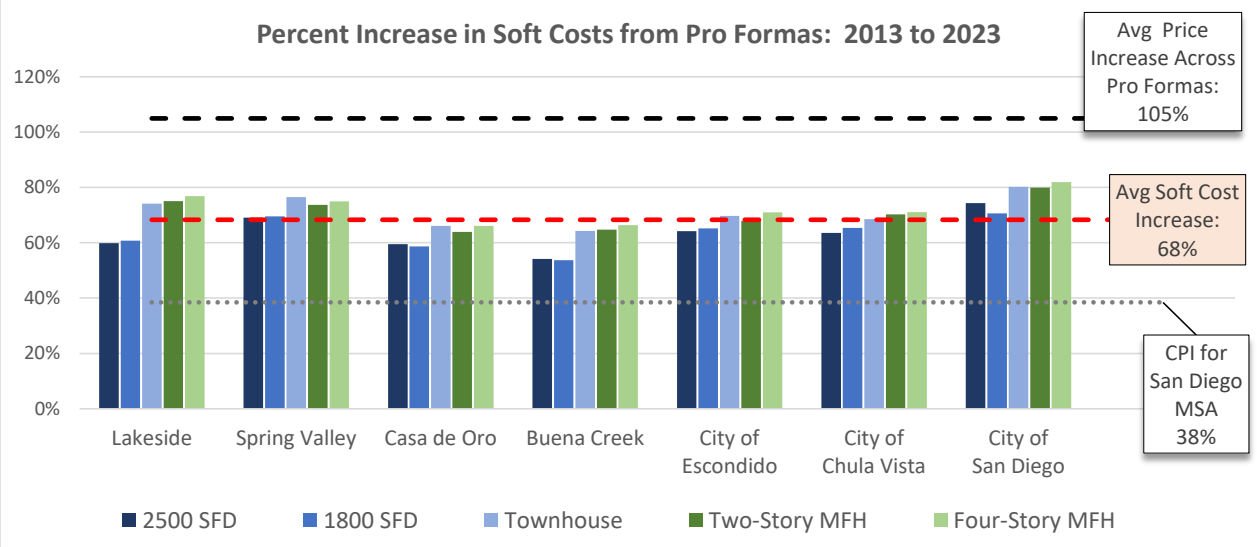
The home price increases were driven by increases in hard costs, soft costs, and the cost of land. Over the Study period, hard costs increased by just over 50% which, while significantly higher than the general inflation increase of 38%, was only about half the overall percent increase of home prices. There is little geographic variation in hard costs among the Study locations because they are all located within San Diego County and are therefore part of the same geographic market for labor and materials. Figure 37 shows the hard costs per square foot by building typology for 2013 and 2023. As shown in the graph, hard costs per square foot varied across typologies, as the different building types require a different mix of labor and materials. In 2013, the hard costs ranged from $117 per square foot for the 2500 SFD typology up to $150 per square foot for the Four-Story MFH typology. By 2023 the hard costs had risen around 53% to 54% across typologies, to a range of $180 to $232 per square foot.

Figure 37 - Pro Forma Hard Costs



Soft costs also increased significantly over the Study period, but again, the rate of increase in soft costs was less than the overall increase in home prices. The soft cost percent increases are summarized in Figure 38 below. As shown in the graph, soft cost increases varied across typologies and locations, though in general the percentage increases for the single-family typologies were lower than the Townhouse and multi-family typologies. Buena Creek generally had the lowest percent increase in soft costs, while the City of San Diego had the highest. Across all typologies and locations, the average soft cost percent increase was 68%, again higher than the general inflation increase of 38% but lower than the total average price increase of 105%.

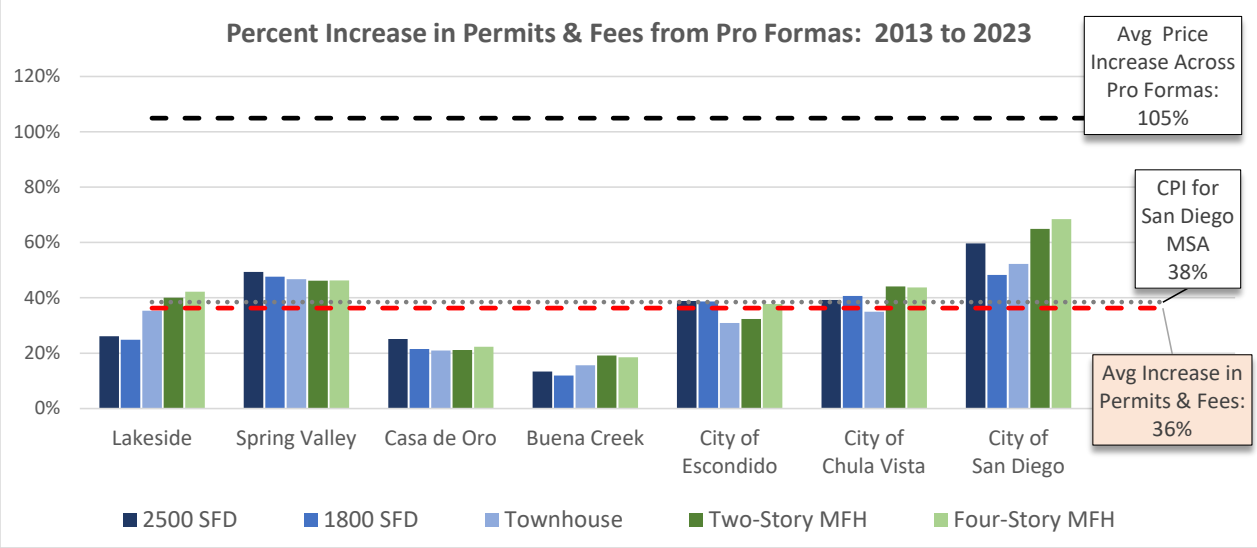
Figure 38 - Increases in Pro Forma Soft Costs were Higher than CPI but Lower than Price Increases



The differences in soft cost increases by location were due primarily to differences in the cost of permits and fees, as shown in Figure 39. In Casa de Oro and Buena Creek, the percent increase in permits and fees was lower than the other Study locations, and far below the increase in general inflation. Other locations, such as Spring Valley and the City of San Diego, had much higher percent increases across all typologies.[97] The average overall percent increase in permits and fees over the Study period was 36%, very close to the CPI increase of 38%.

[97] Note that some of the differences in permit and fee cost changes may be due to differences in the timing and frequency of fee schedule updates. In other words, some locations might have recently implemented fee increases that were applied in the 2023 pro forma analysis, while other jurisdictions have yet to make similar adjustments.

Figure 39 - Percent Increases in Permits and Fees



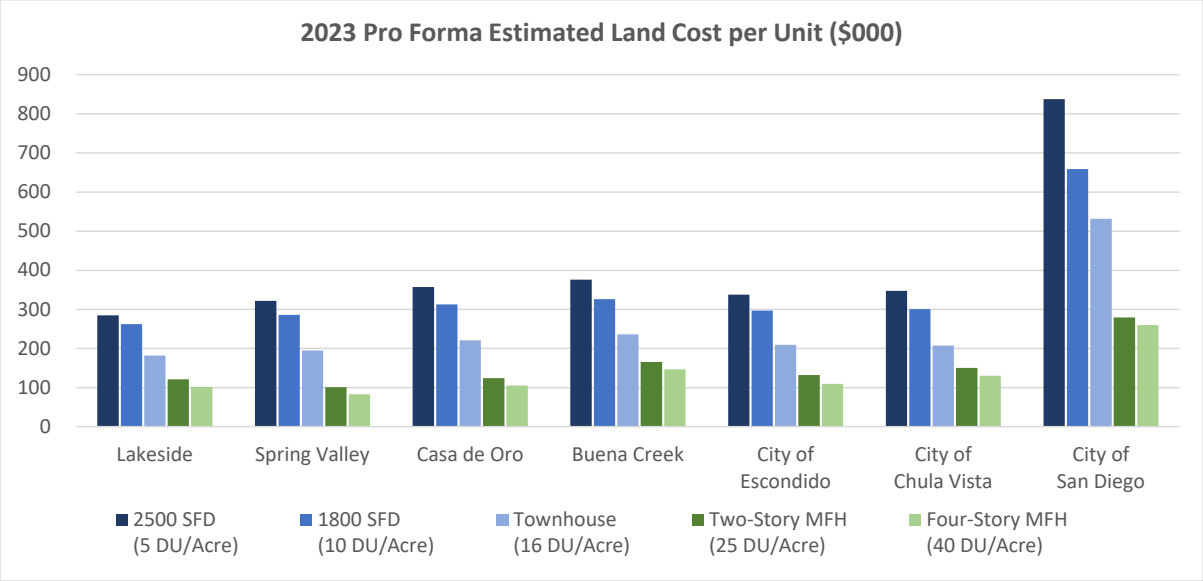
The pro forma analysis shows that all the cost component categories—hard costs, soft costs, and land—have increased across typologies and across the Study locations. The total cost per unit increase has been significant across typologies and locations, as summarized in Figure 40. In dollar terms, the total cost increases have been greatest for the typologies that provide less dense housing, such as the single-family typologies. Cost increases for the 2500 SFH typology ranged from $411,000 in Lakeside to $813,000 in the City of San Diego. The dollar cost increase for the multi-family typologies were much lower, from $279,000 in Lakeside to $358,000 in the City of San Diego. Of the three main categories of development costs, soft costs typically represent the smallest share of the total dollar increase. Averaging across all the typologies and Study locations, the dollar increase in soft costs accounted for 20% of the total cost increase, while hard cost increases accounted for 30% and land cost increases accounted for approximately 50%.

Figure 40 - Change in Cost Components Across Typologies and Study Locations from 2013 to 2023

		Unincorporated Lakeside		Unincorporated Spring Valley		Unincorporated Casa de Oro		Unincorporated Buena Creek		City of Escondido		City of Chula Vista		City of San Diego	
		$000	Share	$000	Share	$000	Share	$000	Share	$000	Share	$000	Share	$000	Share
2500 SFD	Hard Costs	156	38%	156	31%	156	32%	156	32%	156	32%	156	30%	156	19%
	Soft Costs	93	23%	109	21%	97	20%	92	19%	105	21%	112	21%	127	16%
	Land Costs	161	39%	247	48%	228	47%	247	50%	230	47%	259	49%	530	65%
	Total	**411**	**100%**	**512**	**100%**	**481**	**100%**	**496**	**100%**	**492**	**100%**	**527**	**100%**	**813**	**100%**
1800 SFD	Hard Costs	131	32%	131	28%	131	28%	131	28%	131	28%	131	26%	131	19%
	Soft Costs	82	20%	95	20%	83	18%	80	17%	92	20%	99	20%	104	15%
	Land Costs	202	49%	251	53%	248	54%	258	55%	242	52%	272	54%	445	65%
	Total	**415**	**100%**	**477**	**100%**	**462**	**100%**	**469**	**100%**	**466**	**100%**	**503**	**100%**	**681**	**100%**
Townhouse	Hard Costs	104	33%	104	27%	104	29%	104	28%	104	28%	104	27%	104	17%
	Soft Costs	72	23%	83	22%	73	20%	72	19%	77	21%	85	22%	95	16%
	Land Costs	140	44%	191	51%	186	51%	197	53%	186	51%	201	52%	397	67%
	Total	**315**	**100%**	**378**	**100%**	**363**	**100%**	**373**	**100%**	**368**	**100%**	**390**	**100%**	**595**	**100%**
Two-Story MFH	Hard Costs	96	36%	96	35%	96	34%	96	34%	96	36%	96	33%	96	28%
	Soft Costs	61	22%	68	25%	61	21%	59	21%	64	24%	74	25%	76	22%
	Land Costs	114	42%	110	40%	127	45%	129	46%	109	40%	126	43%	173	50%
	Total	**270**	**100%**	**274**	**100%**	**283**	**100%**	**284**	**100%**	**269**	**100%**	**295**	**100%**	**345**	**100%**
Four-Story MFH	Hard Costs	102	38%	102	37%	102	36%	102	36%	102	38%	102	35%	102	30%
	Soft Costs	63	23%	70	25%	63	22%	61	22%	69	26%	76	26%	79	23%
	Land Costs	105	39%	102	37%	118	42%	121	43%	98	36%	117	40%	164	47%
	Total	**270**	**100%**	**274**	**100%**	**283**	**100%**	**284**	**100%**	**269**	**100%**	**295**	**100%**	**345**	**100%**

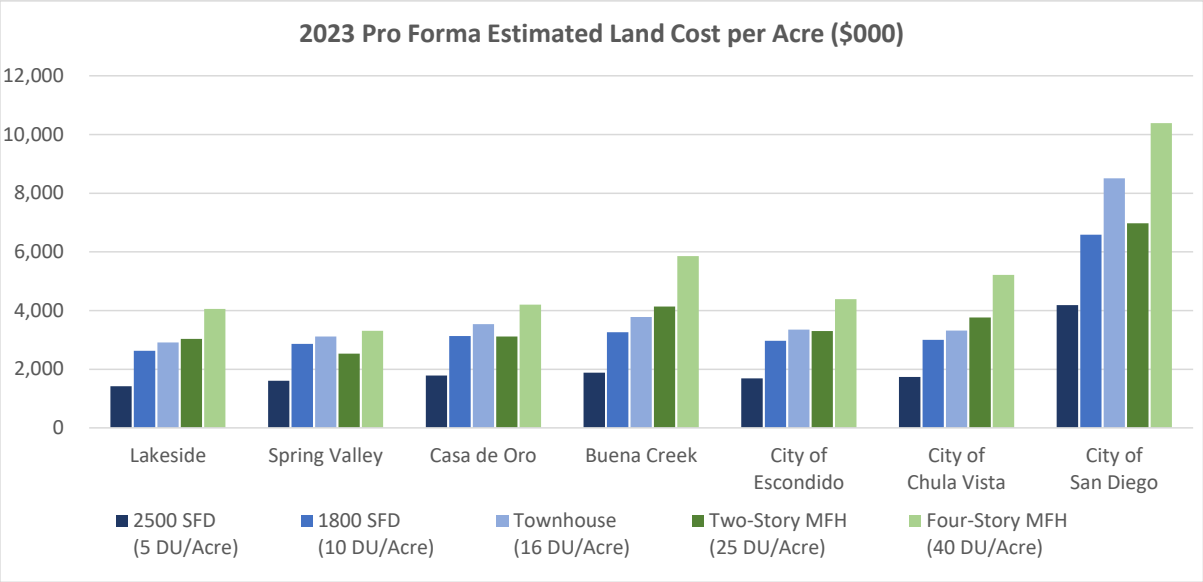
The pro forma analysis also illustrates how estimated land costs vary based on both the density of the project and the location. All else equal, the cost per unit of land for residential typologies typically decreases as the density (dwelling units per acre, or DU/Acre) increases. Land costs also differed by location, as locations that are more geographically desirable (i.e., areas that offer valuable amenities such as shorter commute times or access to shopping and entertainment) typically have higher land values. Among the Study locations, the City of San Diego had much higher home prices and rents, as well as higher land values. These differences can be seen in Figure 41, which shows how the cost per unit for land decreases as the density of the typology increases. The 2500 SFD typology, which has a density of 5 DU/Acre, has the highest 2023 land price per unit in every location, though the actual cost varies considerably, from less than $300,000 per unit in Lakeside to over $800,000 per unit in the City of San Diego.

Figure 41 - Land Cost per Unit by Typology and Study Location



The lower cost per unit that corresponds with higher density, however, also corresponds to a higher total residual land value per acre. Residential developments that are more dense typically have higher land costs per acre because that land cost is spread across more units. This relationship can be seen in Figure 42, which summarizes the estimated 2023 residual land value per acre across typologies and Study locations. Across all typologies, higher density consistently correlates with higher land costs on a per-acre basis, although there is some variation across locations. Lakeside, Buena Creek, and the City of Chula Vista all have consistently higher per-acre land costs across all of the typologies, indicating there is not as much of a "premium" associated with buying vs. renting in those areas compared to the other Study locations, where there is a dip in per-acre land cost as you move from the for-sale Townhouse typology to the more dense for-rent Two-Story MFH typology. Here again, geographic desirability also affects the land cost per acre, with the City of San Diego having the highest per-acre land costs among all the Study locations for all typologies.

Figure 42 - Land Cost per Acre by Typology and Study Location



5.3 Changes in Cost for Tax Credit Financed Affordable Housing

Most affordable (i.e., income restricted) housing in California is built using tax credits awarded by the California Tax Credit Allocation Committee (CTCAC). While cost drivers may differ among market rate and affordable projects, previous research suggests that the overall development costs for market rate and tax credit financed affordable projects are similar.[98] An analysis of CTCAC data reveal that both hard and soft construction costs have increased during the Study period at rates faster than inflation, consistent with the hard and soft cost analysis results presented below.

These data provide a detailed breakdown of hard and soft costs for all projects seeking affordable housing tax credits. The data provide a useful benchmark for estimating these costs for market rate projects (for which cost data are not publicly available) and can be used to evaluate whether there have been significant changes over time or across project types or regions. Data include land cost, demolition and site preparation, interest expense or land holding costs, construction hard costs, contractor overhead and profit, architectural and engineering fees, construction loan financing costs, and impact and permitting fees.[99] Developers provide projected cost estimates when applying for tax credits, and for those that receive tax credit financing, the developer must provide a final, audited accounting of the actual development costs when the project is completed or "placed in service" (PIS). Because the final figures can vary considerably from the initial projections, this analysis only uses the final PIS cost data for projects that were placed in service between 2014 and 2021, the most recent year available from the CTCAC.

The data provided by the CTCAC included 782 completed projects located throughout the state that represented almost 66,000 total units. This included 401 new construction and 381 "Rehab" projects, where existing buildings were renovated or converted from some other use to create affordable housing. Of the 401 new construction projects, 70 included some type of commercial space, typically retail space

[98] See HCD, et al, "Affordable Housing Cost Study." State of California Housing Agencies, 2014 available at: https://www.treasurer.ca.gov/ctcac/affordable_housing.pdf

[99] Data for projects seeking affordable housing tax credits were obtained through a public records act request from the CTCAC.

on the first floor of larger projects located in dense urban areas. To ensure that the CTCAC data represented only new construction for residential units, only the 331 projects that represented new construction projects without commercial space were used. Of those 331 projects, 28 were in San Diego County, 110 were in other Southern California counties, and the remaining 193 were located outside of Southern California. The number of projects and associated units for each geographic region are summarized in Figure 43.

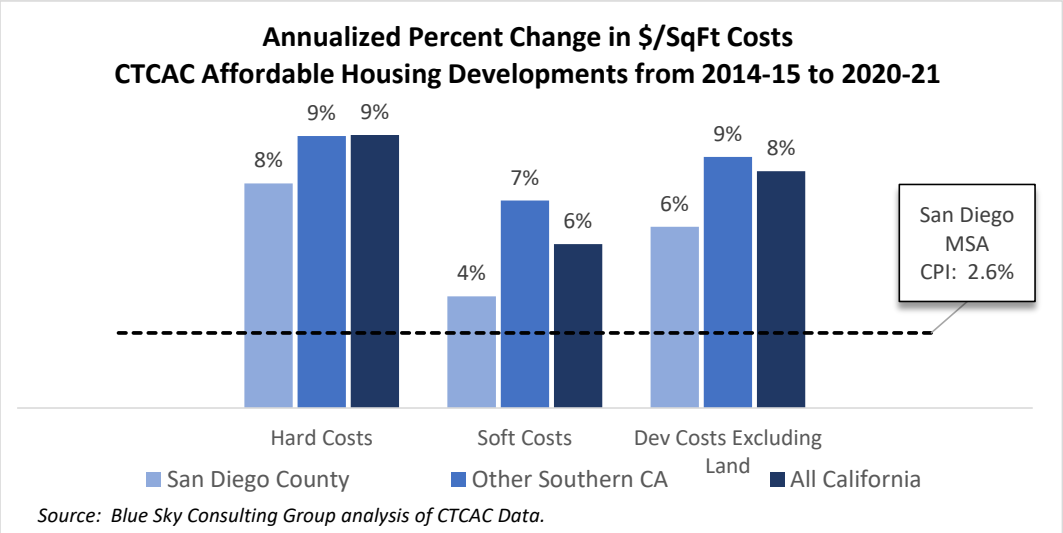
Figure 43 - Summary of CTCAC Data for Affordable Tax-Credit Projects Completed 2014-2021

	All Completed Projects		Rehab Projects		New Construction Projects		New Construction w/out Commercial	
County	**Projects**	**Units**	**Projects**	**Units**	**Projects**	**Units**	**Projects**	**Units**
San Diego	74	7,771	38	4,946	36	2,825	28	2,339
Other Southern CA								
Los Angeles	155	12,993	72	7,612	83	5,381	62	4,046
Orange	41	4,192	9	1,089	32	3,103	25	2,643
San Bernardino	29	2,634	18	1,654	11	980	10	882
Riverside	27	2,438	17	1,703	10	735	9	695
Imperial	4	193	0	0	4	193	4	193
Total Other SoCal	256	22,450	116	12,058	140	10,392	110	8,459
Remaining Counties	452	35,697	227	20,938	225	14,759	193	12,034
TOTAL	**782**	**65,918**	**381**	**37,942**	**401**	**27,976**	**331**	**22,832**

Analysis of CTCAC data reveals that, on average across California, development costs per square foot (excluding land) for tax credit financed multifamily housing projects increased by 8% annually during the period 2014 to 2021.[100] During this period, hard construction costs per square foot increased by 9% annually, financing costs increased by 12% annually, and other indirect (soft) costs increased by 6% annually; overall, soft costs per square foot increased 6% annually statewide over this period. These rates of increase all exceeded the annual rate of inflation, which averaged 2.7% during this period, as shown in Figure 44.

[100] The summary of component costs includes all CTCAC records with available "Placed in Service" cost data for new construction projects that were multi-family residential developments with one or more buildings between 2 and 4 stories. Any projects that included commercial space were excluded.

Figure 44 - Changes in Hard and Soft Costs for Tax Credit Financed Projects



Source: Blue Sky Consulting Group analysis of CTCAC Data.

During this period, financing costs per square foot increased by an average of 12% annually across all projects completed statewide, but only 3% annually for the projects completed in San Diego County and 19% for projects completed in the other Southern California counties. On average, the costs associated with permits and fees decreased slightly across all areas analyzed, likely the result of policies adopted in many jurisdictions to waive or decrease fees for affordable housing. Even taking these lower permit and impact fees into account, total soft costs on average increased 6% annually statewide over this period but just 4% annually in San Diego County and 7% annually in the other Southern California counties. The cost per square foot estimates are summarized in Figure 45, which shows that cost trends per unit are comparable to the changes per square foot, though for the other Southern California counties, the annualized increase in total development costs per unit is 7% versus the 9% increase in costs per square foot due to the considerable decrease in average unit size (from 1,064 sq ft to 973 sq ft).

Figure 45 - Change in Component Costs for Affordable Housing Developments

	SAN DIEGO COUNTY			OTHER SOUTHERN CA			ALL CALIFORNIA		
	2014-15	2020-21	Annualized % Change	2014-15	2020-21	Annualized % Change	2014-15	2020-21	Annualized % Change
Avg Costs per Sq Ft									
Hard Costs	$187	$294	8%	$162	$277	9%	$173	$298	9%
Soft Costs by Type									
Permits/Impact Fees	$31	$26	-3%	$24	$21	-2%	$26	$24	-1%
Financing Costs	$20	$24	3%	$9	$25	19%	$13	$25	13%
Other Indirect Costs	$77	$110	6%	$49	$78	8%	$55	$80	6%
Soft Costs Total	$128	$160	4%	$81	$124	7%	$93	$130	6%
Dev Costs Excluding Land	**$315**	**$454**	**6%**	**$243**	**$401**	**9%**	**$267**	**$428**	**8%**
Avg Costs per Unit									
Hard Costs	$160,370	$263,928	9%	$171,879	$270,117	8%	$167,982	$279,143	9%
Soft Costs by Type									
Permits/Impact Fees	$26,751	$23,167	-2%	$25,446	$20,328	-4%	$24,865	$22,822	-1%
Financing Costs	$16,908	$21,607	4%	$9,118	$23,946	17%	$12,159	$23,838	12%
Other Indirect Costs	$65,703	$99,343	7%	$52,110	$76,102	7%	$53,444	$75,076	6%
Soft Costs Total	$109,362	$144,117	5%	$86,673	$120,375	6%	$90,468	$121,736	5%
Dev Costs Excluding Land	**$269,732**	**$408,044**	**7%**	**$258,553**	**$390,492**	**7%**	**$258,450**	**$400,879**	**8%**
Number of Projects	3	4		15	22		40	65	
Total Units	202	257		1,205	1,528		2,443	4,268	
Avg Unit Size (SqFt)	857	899		1,064	973		969	936	

Source: Blue Sky Consulting Group analysis of CTCAC project costs data as of Placed in Service date.

6 CONCLUSIONS

This section summarizes the results and conclusions of the analysis presented in this report as a foundation for presenting actionable policy recommendations (see “Policy Recommendations” on page 69).

6.1 Results Summary

The results of the quantitative analysis presented in this report show how housing prices (including apartment rents) and new construction costs have increased over time. Specifically, the analysis presented in this report shows that component costs for new development have increased substantially over time, with costs for labor and materials increasing by more than 50% over the past 10 years, exceeding the rate of inflation overall (38%). In addition to costs for labor and materials, soft construction costs for things like architects and engineers or construction financing have also increased more rapidly than inflation over the Study period.

These increases in hard costs and soft costs do not fully explain the increase in new home prices or apartment rents over the Study period (i.e., prices have grown much more rapidly than these inputs to the development process). Instead, the results presented in this report show that land costs rose much more rapidly than other components of cost during this period, and outstripped increases in home prices overall, further suggesting that constrained housing supply is responsible for the majority of the housing price increases observed in the region.

6.2 How the County Can Impact Cost of New Housing

This section identifies the connection (where present) between County policies and increases in housing costs.

6.2.1 Impacts on Hard Construction Costs

While the reasons for increasing construction hard costs are many and can vary by project type and location, there is a limited set of policy options available to the County to address these costs. Most construction materials are national (if not global) commodities, with prices well beyond the ability of the County to control; materials prices are almost entirely set by global markets and policies enacted at the federal level (e.g., tariffs on imported steel). Federal and state building and environmental regulations may also influence the quantities and types of material required for residential development.

Similarly, the available labor pool to build new housing is a function of wages contractors pay, the number of suitable individuals with the requisite skills and experience in a community, and other factors that are largely beyond the ability of the County to control. Labor costs are mostly a function of national and statewide economic factors and legislation. Hourly wages for the various construction industry job types depend on the supply of labor and the demand for its services.

While the ability of the County to impact construction hard costs is limited, there are nevertheless some mechanisms through which the County can influence the prices paid for these inputs to the residential development process, specifically by exercising its control over zoning and building permits. For example, any changes to the local building code beyond the requirements in the state code have the potential to add to construction costs. In addition, any actions the County takes to lengthen (or shorten) the construction timeline also have the potential to impact costs.

These factors notwithstanding, the research presented in this report suggests that increases in hard construction costs (i.e., labor and materials) explain only a small part of the increase in housing prices over the past decade and, furthermore, that the County has only a limited ability to reduce these costs.

6.2.2 County Policy Impacts on Soft Costs

As with hard construction costs, the County has a limited ability to impact most categories of soft construction costs, which include costs for architects and engineers, project financing, developer profits, and permit and impact fees. For example, the County cannot directly impact construction loan interest rates or developer profits.

There are, however, several ways the County could impact soft construction costs: (1) through lower building permit and development impact fees, (2) by expanding the use of the County's existing program to defer the timing for some or all these fees, and (3) by shortening the time required to process and issue permit applications. While the costs and payment schedule for some permit and impact fees are directly within the County's control, research indicates that (a) the County's fees are not substantially higher than comparable jurisdictions and (b) that the increases in these costs have been largely in line with inflation over the past decade (see the section "Permits and Fees" on page 36 for additional information).

Lowering building permit and development impact fees (or delaying the payment of these fees) could be as straightforward as simply reducing or eliminating fees (although doing so would require the County to support the affected functions with general fund or other alternative resources). The County has already used fee waivers to encourage more housing units; for example, in 2019 the County began a temporary program to waive impact fees for ADUs through January 2024. Similar fee waivers or reductions could be used to incentivize the production of other types of housing as well. By controlling zoning and local design-review guidelines, the County also has some impact on the extent of the need for and therefore cost of architects and engineers. However, this is a relatively small share of the total construction cost, and there is little evidence that County policies are driving costs higher in this area.

The County could also consider expanding its impact fee deferral program, which currently allows developers of residential tracts of four or more units and commercial projects to apply for a deferral of the various impact fees, such as the Transportation Impact Fees (TIF), Regional Transportation Congestion Improvement Program (RTCIP) Impact Fees, and park fees, until the time when the final building inspection is scheduled.[101] The County could expand the deferral program to include other types of multifamily residential development, and could encourage greater utilization of the current deferral program by improving its visibility on the County's public website(s) and increasing assistance and education for developers interested in participating in the fee deferral program. Currently the Department of Public Works websites that provide information on Transportation Impact Fees and Parks Department Fees both say only that the fees are collected at the time the building permit is issued, and neither site makes any mention that these fees could be deferred until final inspection.[102] For large residential developments that take a year or longer to complete, these deferrals could result in significant cost reductions by reducing the carrying cost associated with these fees—for example, the Parks Department Fee alone currently ranges $6,667 to $13,206 per unit for single-family dwelling units and from $4,248 to $14,349 per unit for multi-family projects depending upon the Local Park Planning Area.[103]

Fee payment schedules can also be structured to defer part of the payment to later stages of the development process. The City of Oakland assesses an Affordable Housing Impact Fee on new housing

[101] Sec. 77.214.PAYMENT OF FEES (https://codelibrary.amlegal.com/codes/san_diego/latest/sandiego_regs/0-0-0-85405).and Sec 810.111. PARK IMPACT FEES ESTABLISHED (https://codelibrary.amlegal.com/codes/san_diego/latest/sandiego_regs/0-0-0-98906).

[102] See https://www.sandiegocounty.gov/dpw/land/tif.html and https://www.sandiegocounty.gov/pds/bldgforms/pldo_fees.html.

[103] See https://www.sdparks.org/content/sdparks/en/AboutUs/Plans/pldo.html#Multi.

units, with 50% due at permit issuance and the remaining 50% due at project completion, which for large projects can be one to three years after permit issuance. For some large commercial developments, the City of Oakland collects a "Jobs/Housing Impact Fee," with 25% due at permit issuance, 50% due at project completion, and the remaining 25% due within 18 months of project completion, allowing builders to defer some of the cost even further.[104]

The benefits of permit and fee reductions and deferrals should, however, be balanced against the potential issues that may arise. Lower fee revenue could reduce the funds for constructing and maintaining parks, libraries, and transportation infrastructure in the County, and it is possible that it could be more difficult to recoup the full fee amounts for payments due after a project has been completed. Furthermore, there is little evidence to suggest that, at least during the Study period, increases in costs for County permit and impact fees were responsible for a significant share of the cost increase associated with new housing.

6.2.3 County Policies that Impact Price of Land

The cost category over which the County has the greatest degree of control is also among the largest categories and the one that has increased at the most rapid rate during the past 10 years: the price of land. While the value of land reflects several factors, including the desirability of the location for housing, the extent to which costly infrastructure investments are needed to make land suitable for building, and the willingness of landowners to sell their property, the value of land for housing is also directly related to the extent to which local governments allow housing development and the extent and type of development allowed. Specifically, to the extent more land is approved for housing, the available supply of land increases, which in turn puts downward pressure on land prices. In addition, allowing denser housing (e.g., smaller lots, townhouses, or multifamily apartments or condominiums) can increase the available housing supply while minimizing the land cost per unit produced.

It is certainly the case that the County can exercise limited control over other factors, such as consumer demand (i.e. where people want to live) and environmental constraints on where new development can occur (e.g., wildfire hazard zones, conservation areas), yet there is still a significant opportunity for the County to enact policies that can increase the supply of land entitled for housing, reduce the cost of land per unit of housing by approving more dense housing, and reduce the extent of uncertainty and length of time required to approve land development projects.

6.2.4 Tools To Address the Rising Land Costs

Several policy levers exist with which to address the high and rising cost of land for housing, the most significant factor driving the increase in development costs in the unincorporated areas.

1. *Increasing Density:* As demonstrated by the land cost analysis presented in Section 5.1.3 Changes in Land Value on page 39 and the typology analysis on page 53, policies that generate higher residential densities reduce per-unit land costs by spreading this cost across a greater number of units. Higher density is achievable through both General or Special Plan updates that modify parcels' as-of-right development potential, and through offering new or enhanced density "bonuses" to developers that comply with the County's environmental, affordable housing or other policy goals.[105]
2. *Streamlining:* The cost of the entitled land reflects (among other factors) the costs associated with a

[104] See https://cao-94612.s3.us-west-2.amazonaws.com/documents/FY-2022-Impact-Fee-Report.pdf.

[105] Note that, for development to occur, market conditions as well as zoning constraints must be addressed; market research would need to establish that sufficient demand exists for each type of housing to be developed.

developer's efforts to secure approval to build housing. To the extent that discretionary review processes impede or delay entitlement (e.g., by triggering CEQA review), they can act to reduce the supply of entitled land and drive up its price. Therefore, County actions that promote ministerial review, or for discretionary projects, reduce entitlement timelines or promote development certainty, can significantly reduce entitlement cost pressures.

6.2.5 Increasing Density

Previous research as well as the analysis presented in this report show that increasing density offers an effective means of producing housing at a lower cost per unit. Multiple options exist to increase allowable density, including amendments to the County General Plan, upzoning specific parcels or neighborhoods, and offering density bonuses for specific types of projects, such as those that help the County achieve its affordable housing or greenhouse gas reduction goals. In addition, rezoning areas that currently allow only commercial or industrial uses to allow residential uses has the potential to increase housing production as well.

Other jurisdictions, including the City of San Diego, have pursued such a policy approach.[106]

- *City of San Diego ADU Bonus Program:*[107] Under this program, established in 2021, property owners who build one deed-restricted[108] ADU are allowed to build one additional unrestricted ADU as-of-right. Notably, for parcels located in "Transit Priority Areas" (TPA), there is no limit on the number of additional by-right ADUs that may be built (subject to the parcel's building height restrictions and provided that one deed-restricted ADU is built for each unrestricted new unit). According to a Terner Center analysis, 548 ADUs authorized under the program—over half of which were deed-restricted—were authorized in the two-year period following program implementation.[109]
- *City of Sacramento General Plan Update:* In 2021, the Sacramento City Council voted unanimously to approve a draft amendment to the City's General Plan that would allow a minimum of four units on all residential parcels.[110] (Because the city has yet to approve an updated General Plan, this upzoning is not yet in effect.)
- *Spot upzoning under SB 10:* Under SB 10, signed into law in 2021, local jurisdictions may upzone specific parcels to allow up to 10 residential units without undergoing CEQA review.[111] This tool may be very helpful for unlocking greater development on unincorporated parcels relatively close to County transit options (although such options are limited in large parts of the unincorporated area).

[106] See, for example, "Success in Spurring Missing Middle Housing: The Accessory Dwelling Unit Bonus Program" (https://ternercenter.berkeley.edu/research-and-policy/san-diego-adu-bonus-program/).
[107] *City of San Diego Accessory Dwelling Unit (ADU) Bonus Program Application Process* San Diego Housing Commission (SDHC), accessed October 1, 2023.
[108] The property owner can choose to either make the deed-restricted ADU affordable to moderate-income households for 15 years, or low-income households for 10 years. The ADU is unrestricted thereafter.
[109] "San Diego's Success in Spurring Missing Middle Housing," Terner Center, February 15, 2023.
[110] "Sacramento moves toward becoming one of 1st U.S. cities to eliminate single-family zoning," *Associated Press,* January 20, 2021.
[111] "SB 10 to Facilitate Upzonings," Holland & Knight, September 20, 2021.

6.2.6 Project Streamlining

Project streamlining includes policies that shorten project approval timelines as well as policies that reduce uncertainty, for example by allowing more projects to receive ministerial approval rather than more lengthy and uncertain discretionary approvals.

Streamlining has the potential to significantly increase the supply of entitled land and the number and type of projects that are feasible to develop as housing. In addition, a faster and more certain approval process can attract more developers or cause those already working in the County to pursue additional projects.

Offering more opportunities for developers to seek ministerial (or "as-of-right") approval of their projects is one of the best tools available for reducing total development costs by reducing costs incurred during the project planning and application phases. In some cases, a proposed development may be subject to discretionary review even if it conforms with the relevant density and land use requirements set by the jurisdiction's General Plan and zoning code.

Ministerial review reduces development timelines, which both lowers project financing costs and significantly increases regulatory certainty, thereby potentially increasing the number of development projects overall. Because ministerial review requires planning staff only to apply objective criteria (e.g., setback minimums, floor area ratios, height limits, and other land use and design requirements) to determine whether a project application is compliant, the ministerial review process is typically much less burdensome than discretionary reviews. More important, ministerial projects do not trigger CEQA review, which can save developers years of costly environmental review and related litigation. Making grading permits ministerial in unincorporated San Diego County could reduce development costs and timelines and increase the willingness of builders to pursue development projects in the unincorporated area; many other jurisdictions currently have ministerial review for grading permits.

The state has in recent years significantly expanded options for by-right development by prohibiting local jurisdictions from subjecting certain developments to discretionary review. Four of the most significant recent examples, as summarized above (see "Recent State Actions to Address Housing Costs"), include SB 9, SB 35, AB 2011, and SB 4.

While these laws have not yet been utilized by developers to build by-right housing in the unincorporated areas, they may serve as models for possible by-right programs that could be implemented by the County. For instance, a recent report issued on the impact of SB 35 found that the law resulted in applications for 19,000 new housing units statewide over the 2018 – 2021 period, largely in the Bay Area and Los Angeles, where market-rate rents are sufficient to offset the costs imposed by prevailing wage requirements and the foregone revenue from income-restricted units.[112] Notably, according to this report, in the City of San Diego, developers have not yet utilized SB 35 because the city's own programs offer more attractive opportunities for permit streamlining.

Other local jurisdictions outside San Diego have also gone beyond these minimum state-level requirements for providing ministerial review. The City of Sacramento, for example, in 2020 established

[112] "Streamlining Multifamily Housing Production in California: Progress Implementing SB 35," Terner Center, August 2023. Available at: https://ternercenter.berkeley.edu/wp-content/uploads/2023/08/Terner-Center-SB-35-Paper-August-2023-Final.pdf.

ministerial approval for infill housing.[113] Modeled after SB 35, this program unlocks by-right development of multi-family housing consistent with the parcel's General Plan density. The Sacramento program differs in important respects, however. For example, whereas SB 35 requires income limits for a share of the project's units, the city's program does not. Similarly, the city does not impose a prevailing wage and labor requirement; SB 35 imposes this requirement on proposals for developments of 11 or more units.

6.2.7 Potential Tradeoffs

Adopting policies that increase the availability of land may come at a cost in terms of other priorities. Specifically, state and County goals for minimizing vehicle miles travelled and increasing below market rate housing production through an inclusionary housing policy may come into conflict with the goal of maximizing market rate housing production (and in so doing put downward pressure on housing prices).

VMT Mitigation – Preserving Streamlined Review for Projects Consistent with the County's General Plan[114]

Under Section 15183 of the CEQA Guidelines, development proposals that comply with the density and land use requirements imposed by the local jurisdiction's General Plan are entitled to streamlined CEQA review. This procedure is only available, however, if the local government finds that the project will either not result in any "significant impacts" or, where such impacts exist, if there are designated measures that applicants can undertake to sufficiently mitigate these impacts.

In 2013, with the passage of SB 743, the state updated the guidelines that local review agencies were to use for assessing the significance of traffic impacts under CEQA. Under this bill, local agencies were to implement rules for determining the significance of a development's traffic impacts as based on a "vehicle miles traveled" (VMT) standard. Unlike the previous "level of service" (LOS) approach, which considered probable traffic congestion impacts on nearby roadways and intersections, the VMT-based approach considers how many total vehicle-miles (driven countywide) will be added by the project's new residents or employees.[115]

In September 2022, the County adopted an updated set of "Transportation Study Guidelines" (TSG), which offered a new test for determining the significance of proposals' traffic impacts using VMT. Under the TSG, if both (a) the future residents of a proposed unincorporated area project would drive more than 85% of the total daily miles driven per resident countywide and (b) the project is not located in an urban infill area, the project's traffic impacts are deemed significant, requiring mitigation. The TSG determined that projects less than 11 units and within VMT Efficient and Infill Areas, among other screening criteria, would not have transportation impacts and could therefore be exempt from further VMT analysis. Projects that were General Plan consistent and exempt from the VMT analysis were able to move forward using the 15183-exemption process. However, projects that were General Plan consistent but not exempt from VMT analysis, have been required to complete a VMT analysis.

Recent case law on VMT may provide an avenue for the County to expand the use of Section 15183 CEQA

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[113] "MINISTERIAL APPROVAL OF INFILL HOUSING," City of Sacramento, accessed October 31, 2023. Available at: https://www.cityofsacramento.org/Community-Development/Planning/Housing/Ministerial-Housing. Note that the city's program requires that the development be consistent not just with the density prescribed for the parcel under the city's general plan, but that it also comply with the land use designations applied under the city's planning and development code. In this way, it is more stringent than SB 35.

[114] Due uncertainty around VMT, the Board should periodically assess its policy implications.

[115] "Transportation Impacts (SB 743)," Governor's Office of Planning and Research, accessed December 1, 2023. Available at: https://opr.ca.gov/ceqa/sb-743/.

exemption process which prohibits additional CEQA review on projects consistent with the General Plan if all the impacts were previously analyzed and there are no significant impacts peculiar to the project. Because transportation impacts were adequately analyzed in the General Plan Update Program EIR, projects deemed consistent with the County's General Plan and zoning may now proceed under the 15183-exemption process with no additional VMT analysis, including projects located outside VMT Efficient or Infill Areas. Expanding on the use of the 15183 CEQA exemption can help the County achieve its housing goals outlined in their General Plan.

Due to the County's decision to set the VMT-efficiency threshold at 15% below the average VMT per resident countywide (including incorporated cities), in many unincorporated communities, any proposed large housing development will require VMT mitigation. For instance, across all of Ramona, Fallbrook, and Valley Center, where home prices have risen at roughly the same rate—and to nearly the same levels—as seen in Lakeside and Spring Valley, there are no VMT-efficient or infill parcels. Even in the County Islands (i.e., pockets of unincorporated area partially or fully surrounded by incorporated cities) and other western unincorporated communities, such as Sweetwater and San Dieguito, County maps suggest that nearly all future development could require mitigation.[116]

Because the County has not yet established the mitigation measures required for developments deemed to impose significant traffic impacts under this standard, however, developers are not yet able to assess the feasibility of residential development in these areas.[117] As detailed further in the section below (see "Balance VMT Reduction and Housing Production Goals"), possible VMT-related measures may vary widely in per-unit development cost impacts (and depending on the mitigation regime adopted, the total development costs incurred for a given development may exceed expected revenues). According to developers interviewed for this report, this uncertainty has led to a severe decline in project planning in the unincorporated area. Effectively, until these measures are implemented, residential development is likely to be proposed in only the unincorporated communities that meet the VMT or infill standard.

One factor to consider in developing a VMT mitigation policy, or any policy that may make housing development less feasible, is the impact on potential County residents who may choose to live and commute even farther (e.g., from outside of the County) in order to find affordable housing. Specifically, in recent years, the populations in Riverside and San Bernardino Counties have increased, in part because a constrained housing supply in Los Angeles County has forced that county's workforce to look farther afield for affordable housing. Similarly, in San Diego County, according to a 2020 analysis, over 54,000 workers—a population roughly one-tenth the size of the unincorporated areas'—commute to San Diego County from Riverside County.[118]

To the extent that VMT mitigation requirements or other policies effectively constrain growth in the unincorporated area, commute distances for the County's workforce may increase.

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[116] *County of San Diego SB 743 Location-Based Screening Maps*, San Diego County, accessed October 31, 2023. Available at: https://gis-portal.sandiegocounty.gov/arcgis/home/item.html?id=775c6c08842c435fa90d2b8ad77eed76#:~:text=The%20SB%20743%20Location%2DBased,as%20defined%20in%20the%20TSG.

[117] In other words, following the passage of the VMT-based significance threshold, the mitigation measures previously available to developments found to impose significant traffic impacts are no longer available.

[118] Katy Cole and Andrew Scher, "Whitepaper on Inter-Regional Commute Trends Between Riverside and San Diego County," San Diego Chamber of Commerce, February 12, 2020.

7 POLICY RECOMMENDATIONS

This section presents policy recommendations that the County can take to address housing costs in the unincorporated area.

7.1 Considerations for Development of Programmatic VMT Mitigation Policies that Minimize Builder Costs[119]

As of the publication of this Study, County staff have not yet finalized a proposal to implement its VMT mitigation policy for residential developments proposed in non-VMT-efficient or non-infill areas, although this work is underway. As discussed above (see "Potential Tradeoffs"), until the County completes a focused EIR to establish programmatic VMT mitigation, planning and entitlement work on parcels that are neither VMT-efficient nor urban infill may not occur.

Combined with rising financing costs, this rule change may slow progress in increasing housing production. While the County's VMT policy change reflects its broader goal to target infill areas for new housing development, the purpose of the VMT test is to ensure that builders of these homes adopt measures to help the County reach its VMT goals in other ways.

In addition, in developing its programmatic VMT mitigation, the County should ensure that the costs imposed by the required mitigation do not make housing development in non-VMT-efficient communities infeasible. As discussed above (see "Potential Tradeoffs"), overly restrictive VMT policies may *increase* vehicle miles traveled overall. For example, the County's VMT small project threshold, which exempts projects from VMT analysis, is equivalent to eleven single-family units which is significantly lower than some peer jurisdictions throughout the State. In comparison, Riverside County's small project threshold is equivalent to 110 units. More restrictive project thresholds coupled with high VMT mitigation costs can present a barrier for new development by increasing construction costs in more rural or semi-rural unincorporated areas. Adopting more stringent VMT policies in comparison to neighboring counties may also serve to push new development to other regions or states, inversely increasing commute distances and regional VMT. Therefore, in developing policies, the County could consider more flexibility while still being consistent with state laws to facilitate keeping construction costs down to incentivize new development.

Moreover, there are other social and technological trends underway that, along with related government initiatives, may largely generate much of the expected benefits of reduced traffic congestion. First, the recent increase in remote work has cut average commute times across the County and statewide. A continuation of this trend could lessen the need to further reduce VMT, and County policy should recognize that on sites relatively close to current or future transit options, prospective residents may be less likely to commute five days per week. Second, while EVs generate just as much traffic congestion as internal combustion engine (ICE) vehicles, their adoption will at least reduce vehicle-sourced pollution. The state is set to prohibit the sale of ICE vehicles in 2035. Third, recent progress developing fully autonomous vehicles (AVs) may transform society's relationship with its cars. Though still speculative, the rise of AVs, according to transportation policymakers, could significantly reduce both traffic congestion and demand for parking spaces.

As the County's VMT mitigation policy design is already underway, previous studies released by the County have established that, on a per dollar basis, investments in VMT mitigation projects within the unincorporated areas will be less effective (in terms of reducing average VMT) than investments in the

[119] Due uncertainty around VMT, the Board should periodically assess its policy implications.

County's denser incorporated areas, where it is more feasible to encourage transitions from private vehicle use to public transit in denser urban areas. One study concludes that if VMT mitigation funds are limited to infrastructure projects located in the unincorporated County, "the cost to fully mitigate VMT impacts . . . may not be financially feasible for most new development projects." [120] .

7.2 Expand Ministerial Permitting

Amending zoning codes to allow more housing types (including multifamily housing) by-right in more locations would spur housing production and lower housing costs. Bypassing discretionary review leads to far shorter approval times and far greater development certainty, increasing the likelihood that developers will propose new projects.

Under its Housing Element implementation plan, released in 2021 in conjunction with its 6th Cycle Housing Element, the County outlined several future programs promoting ministerial approval:

- AB 1397 implementation: The County will grant by-right approval of any proposal that is both (a) sited on a parcel that was identified in the sites inventory in a previous Housing Element and (b) offers at least 20% of its units at rates affordable to low-income households. The County is also considering an expanded "By-right Approval Program" that would be available to developments meeting the 20% affordability threshold on sites not included in a previous Housing Element sites inventory.
- Objective design standards: To facilitate speedier design review, the County is in the process of reviewing its design standards to ensure that in any urbanized area (as designated by the Census), these standards are objective.

The County could allow certain housing types (e.g., triplexes or small multifamily buildings) by-right in more areas, such as those currently zoned for single-family housing, while also increasing the number and type of larger multifamily projects that are allowed by-right in areas that already are zoned for or can accommodate higher density projects. Several types of projects are already eligible for streamlined approval under state law, such as projects that meet a threshold for a minimum number of below market rate units. The County could go beyond state law and allow ministerial approval for projects with a lower minimum set aside for below market rate units as a tool for increasing production overall. The County is currently developing guidance documents for Regional Housing Needs Assessment (RHNA) sites eligible for AB 1397 included in its sites inventory that were identified in the current and previous RHNA housing cycles. Discretionary review should be established as the exception rather than the norm for as many types of projects as possible.

The County should also consider waiving "Special Area Designators," [as proposed in …] or replacing these designators with objective design standards, for certain uses, such as housing.[121] Currently, development proposals for parcels with these designations—which are often centrally located in unincorporated communities with close access to neighborhood amenities—require discretionary

[120] Specifically, it was estimated that VMT reductions would cost $10,000 to $19,000 per mile if funds were required to be spent on projects in the unincorporated areas. In the City, by contrast, developers in non-VMT-efficient areas pay just $1,400 per mile to reduce project impacts. See *County of San Diego - Programmatic VMT Mitigation Options*, Intersecting Metrics, November 15, 2021. Available at: https://www.sandiegocounty.gov/content/dam/sdc/pds/advance/SB743/County%20of%20SD%20VMT%20Mitigation%20Memo_11-15-2021.pdf

[121] "Options For Removing Barriers To Housing," San Diego County CAO, May 17, 2023.

review.[122]

The County's investment in developing a Programmatic EIR (PEIR) for various communities where County staff determine residential development is most feasible (including the Study Locations surveyed in this report) was previously approved by the Board. These PEIRs, once complete, will give future developers certainty as to the mitigation measures or other actions necessary to secure approval for development proposals on these sites without the need to conduct additional EIRs, thus reducing their overall development cost. Advancing the production of a PEIR represents a valuable incentive that lowers development costs and helps increase housing production.

7.3 Accelerate Process for Establishing Ministerial Grading Permits

The County's current Grading Ordinance can prompt discretionary review, which can result in additional time and costs for residential development projects. Grading permits are treated ministerially in many other jurisdictions, and in San Diego County, grading permits are already ministerial for affordable housing projects streamlined under State law. Amending the Grading Ordinance to allow ministerial approval more broadly, as identified in the Board letter regarding "Options for Removing Barriers to Housing," should reduce development timelines and development costs in the unincorporated areas. In May 2023, the County allocated $150,000 to PDS to update this ordinance accordingly.[123] To the extent this process can be accelerated or possibly expanded to include additional residential development projects, the cost of developing housing units could be further reduced.

7.4 Considerations for Increasing General Plan and Special Plan Density

The simplest way to reduce development costs and home prices is to allow residential developers to build more units per parcel. As shown in this Study's pro forma analysis results, across the four unincorporated Study Locations, on a *per-acre* basis, land value is highest for parcels that allow the construction of the 4-Story MFH (the highest-density) typology. Approving higher residential densities would allow developers to build units that are far more affordable to the typical County household, even if no inclusionary policy is in place.

While increasing density may raise concerns in some communities, sales data establishes that there is nevertheless strong demand for existing multi-family housing units. In all four unincorporated Study Locations, for-sale units in multi-story buildings sell at roughly the same or higher per-square-foot prices as attached or detached single-family homes.

Upzoning opponents also sometimes cite infrastructure or resource constraints as reasons to limit density. While analysis of these constraints is beyond the scope of this Study,[124] as a general matter, research on the impacts of densification on resource consumption establishes that upzoning is more sustainable than the alternative. On a per capita basis, residents of multi-family housing consume less energy[125] and less water[126] than residents of detached homes. Similarly, as acknowledged by the County's VMT analysis, residents in denser neighborhoods account for fewer vehicle miles traveled, on average. In

[122] Originally proposed in a May 2023 CAO letter to the Board.

[123] "Options For Removing Barriers To Housing," *Attachment B – Action Sheet*, County Board of Supervisors (May 24, 2023).

[124] The County's upcoming Development Feasibility Analysis is expected to address these concerns for certain unincorporated areas.

[125] Gunerap, et. al., "Global scenarios of urban density and its impacts on building energy use through 2050," Proceedings of the National Academy of Sciences (August 22, 2017).

[126] Kiefer and Krentz, "Water Use in the Multi-Family Housing Sector," Water Research Foundation (2018).

other words, to the extent that limiting density in one community spurs new housing production in other greenfield areas, net resource consumption increases.

7.5 Guarantee Discretionary Permit Review Timelines

The County has already begun the process of implementing a guaranteed review timeline policy for 100% affordable projects, projects located in VMT efficient and infill areas, and workforce housing projects. In May 2023, the Board approved over $2.5 million in additional ongoing funding to increase staff capacity so that these guaranteed timelines can be achieved. For all three project types, the County aims to limit discretionary reviews, including any CEQA environmental studies, to 30 days or fewer. The County also has committed to limiting plan checks for building permits to 5 days for affordable developments and 15 days for VMT-efficient/infill developments and workforce housing.[127]

This policy should be expanded to include all housing development projects that are consistent with existing zoning designations or are located on identified RHNA sites. While the Board did not allocate additional resources to support this broader implementation, the approach can inform future policy initiatives aimed at increasing housing production.

This action would ensure the County is reviewing plans for housing projects in a set amount of time, providing corrections to applicants to then make. A plan review for projects that require environmental review (discretionary), would be reviewed by County staff within 30 working days of a complete application. Each plan review would include the project application, proposed development plan, and any required environmental studies to address the CEQA. The overall discretionary process varies depending on the type of project, level of environmental review, and amount of opposition or concern for an individual project. The majority of housing projects that go through the discretionary process take approximately a year or more. The plan check for a building permit would be completed within 5 days of a complete application. Associated septic reviews would be completed within the same timelines for discretionary and building plan reviews. In order to achieve these timelines, applicants would be required to conduct a preapplication meeting to ensure the completeness of plans prior to submittal.

This recommendation aligns with Removing Barriers to Housing Short Term Action 1 and 2

7.6 Expand Program that Allows Deferral of Impact Fees

Currently the County allows builders of commercial projects and residential tracts of four or more units to defer the associated impact fees, such as the Transportation Impact Fees (TIF), Regional Transportation Congestion Improvement Program (RTCIP) Impact Fees, and park fees, until the developer schedules the final building inspection rather than requiring payment at the time the permit is issued. The County could expand the deferral program to include other types of multi-family residential development, and encourage more developers to partake of the fee deferral program by increasing awareness of the program and providing more assistance and education for the program. For large residential developments, which can take multiple years to complete, this deferral can generate significant cost reductions by reducing the carrying cost associated with these fees. This is particularly true when borrowing costs are as high as they are currently.

[127] "Options For Removing Barriers To Housing," *Attachment B – Action Sheet*, County Board of Supervisors (May 24, 2023).

7.7 Increase Investments in Training and Retaining Staff

Well-trained and experienced staff in the Planning & Development Services department can shorten timelines and lower costs for residential development projects. Developers described specific examples of how working with well-trained staff made the difference between a project being completed in a timely manner rather than delayed. Many builders also cited their preference for building housing in jurisdictions where the process was run most efficiently, and they communicated a willingness to pay higher fees in exchange for a more efficient review process. A review of County data clearly shows that the time required to review and approve Planning and Building permits in San Diego County has increased significantly over the past decade, most notably since 2020 when the challenges associated with the COVID-19 pandemic began. As noted above, the County has already committed additional funding for the purpose of hiring staff to guarantee discretionary and building permit review timelines. Moreover, the County has allocated over $700,000 annually to hire permit liaisons to expedite the discretionary review and permit approval process. Second, $1.2 million was allocated for information technology upgrades to provide greater access and transparency to project applicants during review.

7.8 Improve Data Collection and Reporting

The conclusions and recommendations presented in this report are grounded in empirical data analysis. However, in several cases, it was not possible to accurately analyze the County's performance (whether better or worse than its peers or relative to its own past performance) due to data limitations. For example, the data submitted to HCD with respect to entitlement and permit applications and approvals is insufficient to make meaningful comparisons between the County and other jurisdictions with respect to entitlement and permit review timelines. Similarly, while the County does collect and maintain data on discretionary permit applications and approvals, it is not generally possible to match these applications to specific project completions such that an estimate of the percent of projects that ultimately succeed, or the time required to complete projects, can be made. Furthermore, while data were available on the number of discretionary permits approved as well as the time required to approve a building permit, collecting and analyzing these data was a time-consuming process, which diminishes the likelihood that such an analysis will be repeated in the future (as would be required to track performance over time). The County should improve data collection and reporting in order to more effectively track its performance over time.

7.9 Recognize and Evaluate Tradeoffs in Adopting New Policies That May Increase Housing Costs

In some cases, policies that the County may wish to adopt could conflict with the goal of reducing housing costs. For example, policies that help to achieve the County's greenhouse gas reduction goals may add to the upfront cost of developing new housing units, although any building code that is approved by the County that goes above State code would be required to prove cost effectiveness before going into effect. In developing its Sustainable Land Use Framework, the County will continue to balance these goals.[128]

Similarly, while adopting an inclusionary housing policy will increase the supply of income-restricted affordable housing, such a policy will also increase the cost of developing housing overall. The County should adopt a policy that requires any new housing-related regulations or ordinances to be

[128] County of San Diego, "Sustainable Land Use Framework," accessed December 1, 2023. Available at: https://engage.sandiegocounty.gov/sustainableframework.

accompanied by an analysis of the impact on the price and availability of housing. The County could still choose to adopt any such policies but would do so with a clear understanding of the potential tradeoffs involved. Additionally, as data becomes available regarding potential impacts of VMT mitigation, the County should evaluate progress on policy impacts and consider making policy changes as needed to ensure these policies are not hindering development in unincorporated areas.

8 APPENDIX A – ESTIMATED SALES PRICES AND APARTMENT RENTS

This Appendix summarizes the approach used to estimate sales prices and apartment rents for each in each Study Location over the 10-year Study period.

For both the SFD typologies and the Townhouse typology, the pro formas present estimated 2013 and 2023 home sales prices for each Study Location. Available data on sales prices in individual communities cannot be directly used to estimate the prices of a home with specific attributes (i.e., specific size, type, and location) as required for the pro forma analysis.

In order to develop estimated prices specific to each typology and location, 2023 price estimates were derived from a regression-based analysis of all single-family home sales across San Diego County over the 12-month period September 1, 2022 to September 1, 2023. [129] This dataset includes, for each listed sale, variables that determine home prices, including the home's living area, the number of bedrooms and bathrooms, the lot size, the home's location, and the year that the home was built. The regression results estimate the value of a home with each typologies' attributes for each zip code across the County. Price estimates for 2013 were derived from an analysis of overall trends in median home prices (controlling for changes in home attributes) between 2013 and 2023.

Estimated prices specific to the townhome typology in each location were developed using Redfin's New Construction data, which provide monthly data for the median price and median price per square foot of both existing home sales and sales of new homes in San Diego County. Because these reports provide both metrics for both SFD and Townhouse units, they may be used to estimate typical price spreads between new SFDs and new townhouses. This spread was applied to the SFD Typology estimated prices in each Study location to generate estimated Townhouse prices.

Estimated rents for each Study Location were developed based on data from RentCafe, which reports the median monthly rent and median square footage across all apartments available for rent in each Study location. The Typology rent was set equal to the median rent $PSF in each location and multiplied by 1,000 square feet (i.e., the MFH Typologies' average unit size). This estimate was then adjusted by 10% to reflect the premium typically paid for new units relative to existing units. [130]

Home Prices Are Not a Linear Function of Living Area

The median living area across all existing homes in San Diego County can differ substantially from the 2500 SFD or 1800 SFD Typology's living area. A typology's sales price, therefore, cannot be determined by simply multiplying the median $PSF by the typology living area, since $PSF itself depends on the size of the home. In other words, holding all other home attributes equal, doubling the size of a house will not lead to a doubling of the home's market value. Instead, the extent to which a home's price increases as its size increases—i.e., the "size premium"—was estimated through an analysis of transactions-level data.

Estimating the "New Home Premium"

Over 95% of home sales involve existing homes; new construction comprises only a small share. As a result, the median prices reported by CAR, Redfin, and others largely reflect the median price of an existing home. All other home attributes held equal, a newer home with more modern finishes and

[129] "Data Center," Redfin, accessed October 1, 2023. Available at: https://www.redfin.com/news/data-center/

[130] This estimated 10% premium reflects the difference in median $PSF between new and existing condos sold across San Diego County in 2023.

appliances will sell for more than an existing home. Like the relationship between a home's living area and its $PSF value, this "new home premium" was estimated through analysis of transactions-level data.

Accurate Estimates of Home Price Appreciation Cannot Be Determined Directly from Changes in the Median Price or Price Per-Square-Foot

Because the two variables discussed above (i.e., the size premium and new home premium) are prone to change over time, aggregated data showing median prices or prices per square foot are not adequate to accurately estimate home price appreciation over time. The median living area for single-family detached homes and townhouses in a community can vary substantially over time; and, if home prices increase more rapidly than household incomes, homebuyers with constrained housing budgets may place more value on a home's location or nearby amenities and less value on its size (i.e., may choose smaller homes).

Moreover, the average age of the housing stock sold during a given period changes year to year (e.g., if the number of new homes sold in a given year changes). Simple comparisons of median $PSF or median prices at two different points in time will not account for these differences and will therefore result in inaccurate home price appreciation estimates.

Home Price Indices Do Not Provide Point-In-Time Prices or Location-Specific Price Appreciation

The Case-Shiller HPI is useful as a measure of broad regional price inflation. This index, which relies on a "repeat sales" or "home sale pairs" methodology, is based on differences in sales prices of the same home at different times. Case-Shiller is therefore a reliable indicator of region-wide home price appreciation across home types, as it controls for any changes in the size, quality, or locations of the homes sold from period to period.

However, the HPI does not itself show estimated prices (at any point in time) for a home with specified attributes. Moreover, the Case-Shiller HPI shows average price inflation across the entire San Diego metropolitan area. To the extent that home price appreciation over the 2013 – 2023 period has varied across the County's cities and communities, these differences are not reflected in the Case-Shiller HPI.

The Prices and Price Trends Gathered from These Sources Nevertheless Align with this Report's Pro Forma Analysis

Figure 46, below, compares the home price appreciation for the SFD and Townhouse typologies reported in this analysis to growth in the median price and $PSF of new and existing SFD and townhouses county-wide (as reported by Redfin), as well as the growth in the Case-Shiller HPI for the San Diego region.

As shown, the appreciation in the price and $PSF of the Typologies varies across the seven Study Locations.[131] On average, these growth rates are in line with the growth rates calculated based on Redfin median prices. In most cases, Case-Shiller and Redfin suggest that home price appreciation has exceeded the estimates shown in this report. Had this report adopted these sources' findings without adjustment, the growth in regional residual land values would have exceeded the levels shown in the pro forma analysis.

On a $PSF basis, the appreciation estimated for the 2500 SFD Typology is below the Redfin County Median ("RCM") for new SFDs in six of the seven Study locations (all except the City of San Diego). For the

[131] Because the typologies used in this report are the same size in 2023 as they are in 2013, their price appreciation is the same as their $PSF appreciation.

1800 SFD Typology, the estimated growth rate is below the RCM for existing homes (which are more likely to be roughly this size) in four of the seven Study Locations. Moreover, growth in the Case-Shiller HPI for San Diego exceeds the Typologies' price and $PSF growth rates for both the 2500 and 1800 SFD Typologies in every location except one. Case-Shiller HPI growth also exceeds the estimated growth rates of the Townhouse Typology in four of the seven Study Locations.

Figure 46 – Comparison of Typology Price Appreciation to Redfin, Case-Shiller

Typology Price & PPSF Apprec.	SFD 2500 Typology	SFD 1800 Typology	Townhouse Typology
Lakeside	72%	95%	96%
Spring Valley	98%	116%	126%
Casa de Oro	83%	104%	108%
Buena Creek	84%	103%	110%
Chula Vista	95%	120%	122%
City of San Diego	106%	113%	135%
Escondido	88%	107%	114%
Independent Sources	**SFD**		**Townhouse**
Price Appreciation			
Redfin County Median - Existing	**95%**		**119%**
Redfin County Median - New	**76%**		**154%**
$PSF Appreciation			
Redfin County Median - Existing	**104%**		**101%**
Redfin County Median - New	**96%**		**111%**
Case-Shiller HPI Appreciation	**122%**		

2023 SFD Typologies Price Estimation

Each SFD typology's estimated 2023 sales price for each Study location was estimated based on analysis of a dataset consisting of all single-family home sales transactions made in San Diego County over the period September 2022 – September 2023, as listed on the real estate sales platform Redfin.[132] This dataset includes, for each home sale, the type of home (single-family, townhouse, condo / co-op, or multi-family); the address, including a postal code and city or community name; the sale date; the sale price; the home's living area; the parcel land area; the year that the home was built; and the number of beds and bathrooms.

This data set comprised the foundation for a linear regression model that estimates the price of a home with each of the SFD Typologies' attributes in each of the Study locations, including the new home premium. As shown in Figure 47, model results show that, on average, a typical 2023 homebuyer would expect to pay roughly $31 PSF more for new-construction homes (i.e., those built in 2019 or later) relative to existing homes. The model results also show that the $PSF value of single-family homes in the County declines as home size increases: for every additional square foot added to a home's living area, the $PSF drops roughly thirteen cents, on average. As a result, holding all other factors equal, the price of the 2500 SFD typology is roughly $89 per square foot lower than the price of the 1800 SFD typology

[132] Redfin, accessed September 15, 2023. Redfin's search function allows users to download, in table format, the results of searches for homes in specified locations. Our search results included all home sales countywide over the 12-month period preceding September 15, 2023. To verify that this search yielded a roughly complete and representative sample of home sales transactions with accurate price data, we compared the transactions in the Redfin dataset to the County Assessment Roll, which lists for each parcel the most recent sales date and price. In total, the Redfin dataset included 7,553 unique sales of single-family homes with living areas of 1,200 – 3,000 square feet and lot sizes of 2,000 square feet to one acre. Home sales not meeting these criteria (or where these values were missing) were excluded from our analysis.

(though the *total* price of the 2500 SFD is still nearly $300,000 higher than the 1800 SFD).

The regression model further provides an estimated difference in per-square-foot home values for each of the Study locations. These differences are based on average per-square-foot value differences across zip codes, with each Study location assigned one or more representative zip codes for purposes of estimating the average price adjustment.[133]

Figure 47 – SFD Regression Results Summary[134]

Parameter	Coefficient	2500 SFD Change in PPSF	1800 SFD Change in PPSF		
Baseline*	**$676**	$676	$676		
Lot Size (Acres)**	**$87**	$9	$0		
Living Area***	**($0.13)**	($89)	$0		
2019_New^	**$31**	$31	$31		
HOA^^	**$5**	$5	$5		
Typology PPSF (excl location adj.)		**$632**	**$712**		
After Location Adjustments		**2500 SFD Total PPSF**	**1800 SFD Total PPSF**	**2500 SFD Price**	**1800 SFD Price**
Lakeside		**$391**	**$472**	**$978,488**	**$848,973**
Spring Valley		**$413**	**$494**	**$1,033,692**	**$888,721**
Casa de Oro Mount-Helix		**$425**	**$505**	**$1,061,812**	**$908,967**
Buena Creek		**$433**	**$513**	**$1,083,099**	**$924,294**
Chula Vista		**$432**	**$512**	**$1,079,621**	**$921,790**
City of San Diego		**$632**	**$712**	**$1,579,714**	**$1,281,857**
Escondido		**$421**	**$501**	**$1,051,426**	**$901,489**

2013 SFD Typologies Price Estimation

To estimate 2013 prices, data from Redfin's "Monthly Housing Market Data" and "New Construction" data portals were analyzed to estimate the price of the SFD typologies in 2013 in each Study location given the actual median price and price per square foot value of single-family homes in each location in this period:

- *Redfin Monthly Housing Market Data:*[135] Redfin's Monthly Housing Market Data series shows, for each type of home (e.g., single-family, townhouse, condo) in each incorporated city and many unincorporated communities, the median total price, median price per square foot, and total

[133] The incorporated Study locations were assigned any zip code fully or mostly contained within the city's borders. For the unincorporated Study locations, we assigned the two zip codes closest to the neighborhoods within the community that were designated by the County in its DFA.

[134] Table Notes:
* Represents the average estimated $PSF of an 1,800 square foot *existing* detached single-family home sited a one-tenth acre lot in the City of San Diego.
** Represents the additional value ($PSF) per additional acre of land area.
*** Represents the decline in $PSF for every additional square foot added to the home's living area.
^ Represents the premium paid ($PSF) for homes built in 2019 or later.
^^ Represents the premium paid for homes belonging to Homeowners' Associations.

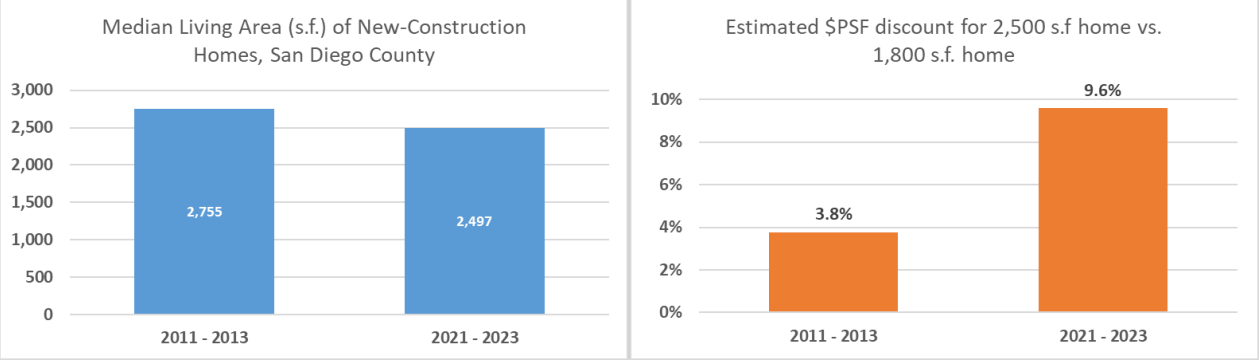
[135] *Data Center – Redfin Monthly Housing Market Data*, Redfin, accessed 10/1/2023. Available at: https://www.redfin.com/news/data-center

number of sales transactions over the most recent one-month period.

- *Redfin New Construction Data:*[136] The New Construction data portal shows, for each type of home, the same metrics for both new-construction and existing homes over the most recent 90-day period. This data portal only provides these metrics at the county or MSA level. In other words, while the New Construction data portal shows the spread in prices between new and existing home, this data cannot be used to determine the average price spreads or new construction prices in individual cities or unincorporated areas.

2013 prices for each Study location were estimated based on an analysis of the relationship between a home's size and its price as of 2013. Because households can devote more of their housing budgets to purchasing larger homes when homes are less expensive, they may demand "less" housing (i.e., smaller homes) as home prices increase. Home price trends in San Diego County confirm this dynamic: in 2013, the median living area across all new homes countywide was 2,755 square feet. By 2023, the average new home had shrunk by over 250 square feet.[137] Moreover, the effective "premium" paid for newer and larger homes had fallen substantially. Over the 2012 – 2014 period, new homes were on a per-square foot basis more expensive than existing homes despite being more than 50% larger, on average. By 2023, the $PSF value across smaller existing home sales had surpassed the $PSF value of new homes, even though the difference in sizes had narrowed.

Figure 48 – Changes in New SFD Home Size and Estimated $PSF Discount Between 2,500 and 1,800 s.f. home (2013 - 2023)



The "size-to-price" relationship in 2013 was estimated by comparing the median price and living area of new-construction homes countywide to the median price and living area of existing homes. Overall, data from the Redfin New Construction data portal suggests, holding other factors constant, a doubling in living area in 2013 would result in a 12% decline in $PSF home values. This trend accounts for the observed difference in new home and existing home price appreciation over the 10-year period. The median price of an existing home increased 95% while new home prices increased just 76%. But on a per-square foot basis, the gap narrowed substantially (to 104% and 96%, respectively). This relationship may

[136] *Data Center – New Construction*, Redfin, accessed 10/1/2023. Available at: https://www.redfin.com/news/data-center/new-construction/.

[137] This trend accounts for the observed difference in new home and existing home price appreciation over the 10-year period. The median price of an existing home increased 95% while new home prices increased just 76%. But on a per-square foot basis, the gap narrows substantially (to 104% and 96%, respectively).

be applied to the actual sales data[138] for each Study location to estimate the 1800 SFD and 2500 SFD typology prices, as shown in Figure 49.

Figure 49 – SFD Typology Price Estimates (2013)

	2013 - Actual Sales Medians			1800 SFD Typology					
Study Location	Price	SqFt	PSF	% Change in Size	Est. Change PPSF From Change in Size	New Home Premium (PPSF)	Net PPSF Difference	PPSF	Price
Lakeside	$372,031	$1,682	$221	7.0%	($1.83)	$22.33	$20.50	**$242**	**$434,952**
Spring Valley	$150,930	$1,431	$214	25.8%	($6.52)	$22.33	$15.81	**$230**	**$413,657**
Casa de Oro-Mount Helix	$214,050	$1,897	$224	-5.1%	$1.36	$22.33	$23.68	**$248**	**$446,257**
Buena Creek	$217,500	$1,951	$228	-7.7%	$2.08	$22.33	$24.41	**$253**	**$454,603**
Chula Vista	$204,603	$1,976	$208	-8.9%	$2.19	$22.33	$24.52	**$232**	**$418,402**
City of San Diego	$255,569	$1,689	$315	6.5%	($2.43)	$22.33	$19.90	**$334**	**$601,987**
Escondido	$187,818	$1,773	$220	1.5%	($0.39)	$22.33	$21.94	**$242**	**$435,713**

	2013 - Actual Sales Medians			2500 SFD Typology					
Study Location	Price	SqFt	PSF	% Change in Size	Est. Change PPSF From Change in Size	New Home Premium (PPSF)	Net PPSF Difference	PPSF	Price
Lakeside	$372,031	$1,682	$221	47.5%	($12.41)	$22.33	$9.91	**$231**	**$577,639**
Spring Valley	$150,930	$1,431	$214	71.2%	($18.01)	$22.33	$4.32	**$218**	**$545,789**
Casa de Oro-Mount Helix	$214,050	$1,897	$224	29.6%	($7.84)	$22.33	$14.49	**$239**	**$596,808**
Buena Creek	$217,500	$1,951	$228	27.7%	($7.48)	$22.33	$14.85	**$243**	**$607,499**
Chula Vista	$204,603	$1,976	$208	26.2%	($6.45)	$22.33	$15.88	**$224**	**$559,514**
City of San Diego	$255,569	$1,689	$315	49.6%	($18.45)	$22.33	$3.87	**$318**	**$796,039**
Escondido	$187,818	$1,773	$220	43.5%	($11.31)	$22.33	$11.02	**$231**	**$577,860**

2013 & 2023 Townhouse Typology Price Estimation

Because townhouses are far less prevalent across the County—particularly in the unincorporated communities—the transaction-level townhouse sales data was insufficient to construct a linear regression model to estimate new townhouse prices for each Study location.[139] For the same reason, the platform's aggregated monthly sales metrics were also unreliable, as the sizes and $PSF of townhouses within each location vary substantially over time.

Given these uncertainties, the Townhouse price was derived from each location's 2500 SFD typology price estimate adjusted for the differential between new townhouse and new SFD prices and sizes countywide.

As shown in Figure 50, below, in 2013, new townhouses were roughly 55% smaller than new SFDs countywide and were 57% cheaper. In other words, a 1% increase in size corresponded to a 1.03% in

[138] Both Redfin data portals report the median price and median PPSF for the relevant home type for each incorporated jurisdiction or unincorporated community each month (only for all sales data, i.e., "*Redfin Monthly Housing Market Data*"), or for 90-day rolling periods for the entire county or MSA (for new-construction and existing homes data). To determine the estimated median *living area* for home type in each, we divided the median price by the median price per square foot. Finally, to estimate *annual* median prices, PPSF, and living areas, we weighted each monthly measurement by the number of sales during the period, and then calculated the weighted average of these medians across all twelve months of each year. As of the date of this report, the New Construction data portal only reflected sales transacted through March 31, 2023.

[139] Over the one-year period September 2022 – September 2023, Redfin shows only 2,658 townhouse sales. For many of these sales, the lot size is either unlisted or reflects the lot size of the entire townhouse development. Due to possible inconsistencies between the townhouses included in this dataset and the Townhouse typology used for this report, we could not reliably generate a Townhouse price for each Study location.

price. 2013 Townhouse typology prices were estimated using this ratio along with the 2500 SFD price estimate for each Study location. Because the Townhouse typology is 40% smaller than the 2500 SFD typology, the Townhouse typology price is estimated to be 41.3% less than the 2500 SFD price.

By 2023, with the decline in the marginal value of additional living area, a 1% increase in size corresponded with a 0.83% price increase. Therefore, the 2023 Townhouse price estimates in each Study location are an estimated 33.1% below the 2500 SFD price.

Figure 50 – Townhouse Price Estimates Methodology Detail

	2013	2023
Single-Family Homes - New Construction		
Median price per square foot	$267	$493
Median living area (sqft)	2,732	2,550
Median total price	$730,706	$1,255,924
Townhouses - New Construction		
Median price per square foot	$248	$539
Median living area (sqft)	1,222	1,523
Median total price	$302,500	$821,486
Reduction in living area (SFD to Townhouse)	-55.3%	-40.2%
Reduction in price (SFD to Townhouse)	-58.6%	-34.6%
Change in price (%) per change in living area (%)	1.06	0.86
Change in Typology Size (SFD to Townhouse)	**-40.0%**	**-40.0%**
Estimated Change in Price	**-42.4%**	**-34.4%**

2013 & 2023 MFH Typologies Rent Estimation

Monthly rents for the MFH typologies in each Study location were estimated using data from the rental platform RentCafe, which contains median rent and median unit living area as of September 2023 for each Study location.[140] The 2023 rents for both typologies are the product of first multiplying the median rental $PSF in each Study location by 1,000 square feet per unit.[141] These initial rent calculations were then adjusted by 10% to reflect the spread between new-construction rental units and the median rent across all units; this new-construction rental premium is based on Redfin New Construction data showing $PSF spreads for new and existing condo sales. To verify market demand for units at these estimated rental rates, data on available rental units on Redfin in each Study location were analyzed to confirm that the final estimates were within the range of available units' asking rents as of September 2023.

[140] Because RentCafe was the only platform that provided distinct price estimates for each of our Study locations, it was chosen as the basis for our pro forma analysis. RentCafe's estimates were verified by gathering pricing data from Zumper, Apartments.com, Redfin, Zillow, and Apartment List. While median rent estimates for each location varied across sources, RentCafe's estimates were all within the overall range.

[141] *RentCafe*. Accessed 9/1/2023. Available at: www.rentcafe.com.

Figure 51 – Estimated asking rent inflation – Study Locations & San Diego MSA (2013 – 2023)[142]

ZORI Location	Assigned Study Location	Est. Asking Rent Inflation
San Diego-Carlsbad MSA		**79.4%**
City of El Cajon	Lakeside	**89.0%**
Spring Valley	Spring Valley	**92.3%**
Spring Valley	Casa de Oro - Mount Helix	**92.3%**
City of Vista	Buena Creek	**81.2%**
City of Escondido	City of Escondido	**79.0%**
City of Chula Vista	City of Chula Vista	**83.8%**
City of San Diego	City of San Diego	**78.7%**

To estimate 2013 rents, data from both Zillow and BLS rental index data were used to calculate an estimated difference in median rents in each Study location in 2013 and 2023, which was then adjusted by the estimated new-construction premium in 2013. The Zillow Observed Rent Index (ZORI) was necessary to calculate rent cost inflation, despite the availability of BLS's "Rent of primary residence"[143] measure, for two reasons. First, because the BLS index measures the growth in rents paid across all rented units in each region, it may significantly lag changes in *asking* rents, since only a small number of units turn over each month, and landlords will only periodically raise rents on units already occupied.[144] (Asking rents—not rents paid—are the relevant measure for purposes of developing a pro forma.) Second, because the BLS measure reflects rent inflation across the entire San Diego-Carlsbad MSA, it does not reflect differences in rent cost inflation between the County's communities.

Figure 51 shows, for each Study location, estimated rent inflation over two separate periods—2013 to 2015 and 2015 to 2023—as well as cumulative inflation over the entire 2013 – 2023 period. Cumulative inflation could not be calculated using only ZORI data because that index only includes regional median rents dating back to 2015. Inflation for each period was calculated as follows:

- *2015 – 2023 period inflation:* To calculate inflation rates for the 2015 – 2023 period, each Study location was assigned to one of the regions included in Zillow's rent data tracking index. Each incorporated Study Location is included in ZORI. For the unincorporated locations, a nearby city was used if the ZORI did not include data for the unincorporated community.[145] The 2015 – 2023 period inflation was set equal to the growth in asking rents for each assigned region over the period.
- *2013 – 2015 period inflation*: Due to the lack of ZORI data for years prior to 2015, the rate of rent cost inflation from BLS was applied to 2015 rent levels to estimate 2013 rent levels for each Study Location (roughly 3% annually over the two-year period).[146]

[142] ZORI; BLS.

[143] "Rent of primary residence in San Diego-Carlsbad, CA, all urban consumers, not seasonally adjusted," BLS, accessed September 15, 2023. Available at: https://data.bls.gov/timeseries/CUURS49ESEHA?amp%253bdata_tool=XGtable&output_view=data&include_graphs=true.

[144] "Rent Growth & Inflation Explainer," Apartment List, July 11, 2022. Available at: https://www.apartmentlist.com/research/rent-growth-and-inflation-explainer

[145] Zillow did not begin tracking Spring Valley rents until 2017. Rent inflation for 2015 and 2016 were estimated based on the Zillow inflation rate for the wider MSA.

[146] The methodology chosen to estimate 2013 – 2015 asking rent inflation has very little impact on the overall 2013 – 2023 inflation.

9 APPENDIX B – PRO FORMA ANALYSIS DETAIL

Pro Forma Overview

This appendix provides detailed estimates of the costs and revenues for all the building typologies in each of the Study Locations. The data are organized by Study Location and present the pro forma analysis for each building typology in that location for 2023 and 2013. They are presented in the following order:

- Unincorporated - Lakeside
- Unincorporated - Spring Valley
- Unincorporated - Casa de Oro
- Unincorporated - Buena Creek
- City of Escondido
- City of Chula Vista
- City of San Diego

Each pro forma estimates the hard and soft costs for each of the five building typologies in the Study location for 2023 and 2013. The revenue for each typology is then estimated as either the net sales revenue or the capitalized rental income. Finally, the residual land value is estimated as the net revenue minus the hard and soft costs. The residual land value represents the most a developer would be able to pay for a ready-to-build parcel of land given the revenues and costs of a proposed development. For each pro forma the land costs are presented per unit and per acre.[147]

Pro Forma Typologies

The five typologies analyzed in the proformas, which are summarized in Figure 52 below, are as follows:

1. ***2500 SFD*** represents a development of 2,500 square foot single-family detached homes. Each home has two stories, and the development consists of 50 for-sale homes built on ten acres of land for a density of 5 units per acre.
2. ***1800 SFD*** represents a development of 1,800 square foot single-family detached homes. Each home has two stories, and the development consists of 100 for-sale homes built on ten acres for a density of 10 units per acre.
3. ***Townhouse*** represents a development of three-story townhouses. Each for-sale unit has 1,500 square feet of living area with a garage space on the first floor. The development includes 40 four-unit buildings spread over ten acres of land for a total of 160 units and a density of 16 units per acre.
4. ***Two-Story MFH*** represents a development of two-story multi-family apartment buildings. Each building has two stories and has 25 rental units with an average of 1,000 square feet of living space per unit and a total of 31,250 gross square feet (the remaining square footage is common space). The Two-Story MFH development includes ten buildings built on ten acres for a total of 250 units, or a density of 25 units per acre.

[147] Note that, for some of the typologies, the 2013 residual land value is negative, which indicates that the expected revenue for the typology in that location is less than the combined hard and soft costs associated with development.

5. ***Four-Story MFH*** represents a development of four-story multi-family apartment buildings. Each building has 40 rental units with an average of 1,250 gross square feet per unit and 1,000 net square feet of living area. Each unit also has two surface parking spaces. The Four-Story MFH includes ten buildings built on ten acres for a total of 400 units or a density of 40 units per acre.

Figure 52 - Summary of Pro Forma Building Typologies

	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
For Sale or For Rent	Sale	Sale	Sale	Rent	Rent
Number Units	50	100	160	250	400
Number of Buildings	50	100	40	10	10
Units per Building	1	1	4	25	40
Site Acres	10	10	10	10	10
Units per Acre	5	10	16	25	40
Stories	2	2	3	2	4
Floor Area Ratio (FAR)	0.29	0.41	0.55	0.72	1.15
Square Footage per Unit	2,500	1,800	1,500	1,000 Livable (1,250 Gross)	1,000 Livable (1,250 Gross)
Units - Type	4BR	3BR	3BR	2BR	2BR
Parking Type	Garage	Garage	Garage	Surface	Surface
Parking - Spaces per Unit	2	2	1	2	2

Revenue Estimates

For both the SFD typologies and the Townhouse typology, the pro formas present estimated 2013 and 2023 sales prices for each Study Location. These estimates were developed using historical sales data for San Diego County. Regression analysis was used to adjust sales prices to estimate the cost of a newly constructed home matching each building typology for each Study location. For the Two-Story MFH and Four-Story MFH typologies, estimated 2023 rents for each Study Location were developed based on data from RentCafe, which reports the median monthly rent and median square footage across all apartments available for rent in each Study location and adjusted to reflect the premium typically paid for new units relative to existing units. Rent estimates for 2013 were derived from the Zillow Observed Rent Index (ZORI), which shows rent cost inflation for many cities and unincorporated communities in the County, along with data from the of the "Rent of primary residence" from the San Diego region CPI, as reported by BLS. A detailed explanation of the methodologies used to construct the revenue estimates is provided in Appendix A

Hard Cost Estimates

Estimates of hard costs for each typology in 2013 and 2023 were developed using RSMeans' construction cost estimation software. For more details on how the hard costs were calculated see "Appendix C: Hard cost estimate methodology," which provides documentation on how estimates of the costs and revenues for all of the building typologies were constructed for each Study location.

Soft Cost Estimates

Soft costs for residential development projects include expenses that are not directly tied to the labor and materials used for the construction of a building. For this analysis, soft costs are separated into three categories: permits and fees, financing costs, and other indirect costs.

Permits and fees include all building permit fees, inspection fees, impact fees, water and sewer fees, utility hookup charges, and other similar charges imposed by a state or local government or utility and required to proceed with construction or occupancy and are based on the fee schedule for the year and

location of each pro forma. Sources include either the municipality or, for the projects located in unincorporated areas, the County of San Diego for permit fees and other fees collected by those entities as part of the permitting process (e.g., transportation impact fees, park impact fees, fire mitigation fees, etc.). For large residential developments many jurisdictions charge different permit and inspection fees for the initial "model phase" and lower fees for the "subsequent phase." In those instances, we use the model phase rate for the first building and the lower subsequent phase fee for all additional buildings. School impact fees were estimated based on fee schedules from the appropriate school districts; water and sanitation (wastewater) fees were estimated based on published data from the appropriate water and/or sanitation district for the applicable impact, capacity, and hook-up fees.

Financing costs include the costs associated with financing a development project through the construction period. The financing costs for a residential development project vary depending upon the amount of financing needed, the fees and interest rates charged, and the length of time for which the financing is required. For each pro forma, developers are assumed to finance 65% of the total direct and indirect costs and pay a 0.75% financing fee on the amount borrowed for both 2013 and 2023.[148] Interest rates were estimated to be 5.75% in 2013 and 10.00% in 2023 across all building types, rates that correspond to the prime rate plus 2.50%.[149] The financing period used for each typology is based on data from the U.S. Census Bureau's Survey of Construction for the U.S. Western Region and are summarized in Figure 53.

Figure 53 – Construction Financing Periods for Pro Forma Analysis (Months)

	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
2013 Construction Period	5.5	5.5	8.9	14.6	14.6
Leasing/Absorption	6.0	6.0	6.0	6.0	6.0
Total Financing Period	**11.5**	**11.5**	**14.9**	**20.6**	**20.6**
2023 Construction Period	9.3	9.3	17.5	22.5	22.5
Leasing/Absorption	6.0	6.0	6.0	6.0	6.0
Total Financing Period	**15.3**	**15.3**	**23.5**	**28.5**	**28.5**

Other Indirect Costs

The other indirect costs included in the pro forma analysis represent all the remaining soft costs, such as architecture and engineering (A&E) fees, legal and accounting fees, insurance costs, general and administrative (G&A) expenses, etc. This category also includes costs that are incurred after construction is complete, such as commissions and marketing costs, developer fees/profit, and for the rental typologies, ongoing maintenance and operating costs. Many of these expenses are expressed as a percentage of hard costs, which are identical as a percentage across building types and time periods but increase in dollar terms as the underlying costs increase. The values used to estimate the other indirect costs are summarized in Figure 54Figure 10 above.[150]

[148] These values match those currently used by the Tener Center's *Housing Development Dashboard* (see https://ternercenter.berkeley.edu/development-calculator-dashboard/).

[149] For 2013 and 2023 we use the Bank Prime Loan Rate as of January 1st as published by the Federal Reserve Bank of St. Louis (https://fred.stlouisfed.org/series/DPRIME).

[150] Note that indirect costs do not include any costs associated with inclusionary housing requirements, which would require a developer to either provide affordable (below-market) units or pay an in-lieu fee. The cities of San Diego and Chula Vista currently have inclusionary requirements, which could increase the total development costs for those jurisdictions above the estimates provided here.

Figure 54 - Additional Indirect Cost Parameters Used in Pro Forma Analysis

Cost Paramters	2023	2013	Source(s)
Construction Phase			
Architect & Engineering (% Hard Costs)	7.0%	7.0%	RS Means, CTCAC Data
Legal, Insurance, Warrany (% Hard Costs)	3.0%	3.0%	Industry research, CTCAC Data
Marketing ($/Unit)	$2,000	$1,445	Industry research, 2013 values deflated from 2023
General & Administrative (% Indirect Costs)	1.0%	1.0%	Industry research, CTCAC Data
Soft Cost Contingency (% Indirect Costs)	5.0%	5.0%	Industry research, CTCAC Data
Developer Fee (% Hard Costs)	4.5%	4.5%	Industry research, CTCAC Data
Post Construction Phase			
For Sale Typologies:			
Commission Paid (% Sale Price)	3.0%	3.0%	Industry standard, buyer commission only
For Rent Typologies:			
Avg Monthly Rent ($/Unit)	$3,098	$1,927	Blue Sky Analysis
Vacancy (%) (% of Units)	5.0%	5.0%	Terner Dashboard
Operating Expenses (% of Revenues)	30.0%	30.0%	Terner Dashboard
Capitalization Rate	4.0%	5.0%	Costar (2023)
Commission Paid (% of Revenues)	3.0%	3.0%	Industry research
All Typologies:			
Developer Profit (% of cost before land)	10.0%	10.0%	Industry research, Terner Dashboard

Pro Forma for Lakeside

Pro Forma Analysis Detail: Unincorporated - Lakeside

	2023					2013				
	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
Hard Costs										
Construction Costs ($/Gross SqFt)	$125	$140	$134	$164	$174	$81	$90	$86	$105	$111
Construction Cost + Appliances ($/Unit)	$342,243	$282,338	$226,461	$212,984	$225,775	$223,850	$184,571	$147,855	$138,378	$146,115
Parking ($/Unit)	$43,574	$43,574	$21,787	$6,800	$6,800	$27,306	$27,306	$13,653	$4,912	$4,912
Offsite Improvements ($/Unit)	$8,712	$4,356	$2,723	$1,742	$1,089	$6,293	$3,146	$1,966	$1,259	$787
Contractor Fee ($/Unit)	$54,642	$45,003	$45,067	$53,313	$56,347	$35,294	$28,930	$28,796	$34,314	$36,130
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Soft Costs										
Permits and Fees ($/Unit)	$46,710	$43,299	$24,956	$21,239	$20,258	$37,052	$34,671	$18,434	$15,167	$14,249
Financing Costs ($/Unit)	$35,575	$30,027	$31,307	$33,522	$35,136	$12,136	$10,251	$9,070	$10,347	$10,786
Other Soft Costs ($/Unit)	$72,747	$61,384	$48,319	$44,895	$47,127	$47,959	$40,449	$31,670	$29,449	$30,766
Preliminary Soft Costs ($/Unit)	**$155,033**	**$134,710**	**$104,582**	**$99,656**	**$102,522**	**$97,147**	**$85,370**	**$59,174**	**$54,964**	**$55,801**
Total Costs Before Developer Profit	$604,204	$509,981	$400,620	$374,495	$392,532	$389,890	$329,325	$251,444	$233,825	$243,745
Developer Profit (% of cost before land)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Developer Profit ($/Unit)	$60,420	$50,998	$40,062	$37,449	$39,253	$38,989	$32,932	$25,144	$23,382	$24,374
Total Costs Excluding Land	**$664,624**	**$560,979**	**$440,682**	**$411,944**	**$431,786**	**$428,879**	**$362,257**	**$276,589**	**$257,207**	**$268,119**
Revenues										
For Sale Units										
Price per Unit	$978,488	$848,973	$642,100			$567,641	$434,470	$326,878		
Commission (3.0% of Revenues)	($29,355)	($25,469)	($19,263)			($17,029)	($13,034)	($9,806)		
Rental Units										
Avg Monthl Rent ($/Unit)				$2,819	$2,819				$1,681	$1,681
Avg Vacancy Rate (%)				5.0%	5.0%				5.0%	5.0%
Operating Expenses (% of Revenues)				30.0%	30.0%				30.0%	30.0%
Net Annual Operating Revenue ($/Unit)				$21,990	$21,990				$13,112	$13,112
Capitalization Rate				4.0%	4.0%				5.0%	5.0%
Revenue Before Commission ($/Unit)				$549,748	$549,748				$262,241	$262,241
Commission (3.0% of Revenues)				($16,492)	($16,492)				($7,867)	($7,867)
Net Revenue per Unit Excluding Land	**$949,133**	**$823,504**	**$622,837**	**$533,256**	**$533,256**	**$550,612**	**$421,436**	**$317,071**	**$254,374**	**$254,374**
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Total Soft Costs ($/Unit)	**$244,808**	**$211,178**	**$163,907**	**$137,106**	**$141,775**	**$153,165**	**$131,337**	**$94,125**	**$78,346**	**$80,175**
Residual Land Value ($/Unit)	**$284,509**	**$262,525**	**$182,154**	**$121,312**	**$101,470**	**$121,733**	**$59,179**	**$40,483**	**($2,834)**	**($13,745)**
Residual Land Value ($/Acre)	$1,422,544	$2,625,248	$2,914,472	$3,032,791	$4,058,809	$608,666	$591,791	$647,722	($70,846)	($549,819)

Pro Forma for Spring Valley

Pro Forma Analysis Detail: Unincorporated - Spring Valley

	2023					2013				
	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
Hard Costs										
Construction Costs ($/Gross SqFt)	$125	$140	$134	$164	$174	$81	$90	$86	$105	$111
Construction Cost + Appliances ($/Unit)	$342,243	$282,338	$226,461	$212,984	$225,775	$223,850	$184,571	$147,855	$138,378	$146,115
Parking ($/Unit)	$43,574	$43,574	$21,787	$6,800	$6,800	$27,306	$27,306	$13,653	$4,912	$4,912
Offsite Improvements ($/Unit)	$8,712	$4,356	$2,723	$1,742	$1,089	$6,293	$3,146	$1,966	$1,259	$787
Contractor Fee ($/Unit)	$54,642	$45,003	$45,067	$53,313	$56,347	$35,294	$28,930	$28,796	$34,314	$36,130
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Soft Costs										
Permits and Fees ($/Unit)	$59,782	$55,251	$42,637	$35,523	$33,427	$40,022	$37,423	$29,051	$24,293	$22,853
Financing Costs ($/Unit)	$36,442	$30,820	$32,896	$35,010	$36,509	$12,237	$10,345	$9,491	$10,795	$11,208
Other Soft Costs ($/Unit)	$73,532	$62,101	$49,380	$45,752	$47,917	$48,137	$40,614	$32,307	$29,997	$31,282
Preliminary Soft Costs ($/Unit)	**$169,756**	**$148,172**	**$124,913**	**$116,285**	**$117,853**	**$100,396**	**$88,382**	**$70,850**	**$65,085**	**$65,343**
Total Costs Before Developer Profit	$618,927	$523,443	$420,951	$391,124	$407,864	$393,139	$332,336	$263,120	$243,946	$253,287
Developer Profit (% of cost before land)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Developer Profit ($/Unit)	$61,893	$52,344	$42,095	$39,112	$40,786	$39,314	$33,234	$26,312	$24,395	$25,329
Total Costs Excluding Land	**$680,819**	**$575,787**	**$463,046**	**$430,236**	**$448,650**	**$432,453**	**$365,570**	**$289,432**	**$268,340**	**$278,616**
Revenues										
For Sale Units										
Price per Unit	$1,033,692	$888,721	$678,326			$521,380	$411,939	$300,238		
Commission (3.0% of Revenues)	($31,011)	($26,662)	($20,350)			($15,641)	($12,358)	($9,007)		
Rental Units										
Avg Monthl Rent ($/Unit)				$2,809	$2,809				$1,646	$1,646
Avg Vacancy Rate (%)				5.0%	5.0%				5.0%	5.0%
Operating Expenses (% of Revenues)				30.0%	30.0%				30.0%	30.0%
Net Annual Operating Revenue ($/Unit)				$21,914	$21,914				$12,839	$12,839
Capitalization Rate				4.0%	4.0%				5.0%	5.0%
Revenue Before Commission ($/Unit)				$547,845	$547,845				$256,784	$256,784
Commission (3.0% of Revenues)				($16,435)	($16,435)				($7,704)	($7,704)
Net Revenue per Unit Excluding Land	**$1,002,681**	**$862,059**	**$657,976**	**$531,410**	**$531,410**	**$505,739**	**$399,580**	**$291,231**	**$249,081**	**$249,081**
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Total Soft Costs ($/Unit)	**$262,659**	**$227,178**	**$187,358**	**$155,398**	**$158,640**	**$155,351**	**$133,974**	**$106,169**	**$89,479**	**$90,672**
Residual Land Value ($/Unit)	**$321,862**	**$286,272**	**$194,930**	**$101,173**	**$82,759**	**$73,286**	**$34,011**	**$1,799**	**($19,260)**	**($29,535)**
Residual Land Value ($/Acre)	$1,609,309	$2,862,720	$3,118,879	$2,529,329	$3,310,372	$366,429	$340,105	$28,789	($481,492)	($1,181,392)

Pro Forma for Casa de Oro

Pro Forma Analysis Detail: Unincorporated - Casa de Oro

	2023					2013				
	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
Hard Costs										
Construction Costs ($/Gross SqFt)	$125	$140	$134	$164	$174	$81	$90	$86	$105	$111
Construction Cost + Appliances ($/Unit)	$342,243	$282,338	$226,461	$212,984	$225,775	$223,850	$184,571	$147,855	$138,378	$146,115
Parking ($/Unit)	$43,574	$43,574	$21,787	$6,800	$6,800	$27,306	$27,306	$13,653	$4,912	$4,912
Offsite Improvements ($/Unit)	$8,712	$4,356	$2,723	$1,742	$1,089	$6,293	$3,146	$1,966	$1,259	$787
Contractor Fee ($/Unit)	$54,642	$45,003	$45,067	$53,313	$56,347	$35,294	$28,930	$28,796	$34,314	$36,130
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Soft Costs										
Permits and Fees ($/Unit)	$53,290	$49,676	$36,071	$31,938	$30,586	$42,578	$40,897	$29,821	$26,367	$25,014
Financing Costs ($/Unit)	$36,011	$30,450	$32,306	$34,637	$36,213	$12,325	$10,463	$9,522	$10,896	$11,314
Other Soft Costs ($/Unit)	$73,142	$61,766	$48,986	$45,537	$47,747	$48,290	$40,822	$32,353	$30,121	$31,412
Preliminary Soft Costs ($/Unit)	**$162,444**	**$141,893**	**$117,362**	**$112,112**	**$114,546**	**$103,193**	**$92,182**	**$71,697**	**$67,385**	**$67,740**
Total Costs Before Developer Profit	$611,615	$517,164	$413,400	$386,950	$404,556	$395,936	$336,136	$263,967	$246,246	$255,684
Developer Profit (% of cost before land)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Developer Profit ($/Unit)	$61,161	$51,716	$41,340	$38,695	$40,456	$39,594	$33,614	$26,397	$24,625	$25,568
Total Costs Excluding Land	**$672,776**	**$568,880**	**$454,741**	**$425,645**	**$445,012**	**$435,529**	**$369,750**	**$290,363**	**$270,871**	**$281,252**
Revenues										
For Sale Units										
Price per Unit	$1,061,812	$908,967	$696,778			$580,357	$446,615	$334,200		
Commission (3.0% of Revenues)	($31,854)	($27,269)	($20,903)			($17,411)	($13,398)	($10,026)		
Rental Units										
Avg Monthl Rent ($/Unit)				$2,909	$2,909				$1,704	$1,704
Avg Vacancy Rate (%)				5.0%	5.0%				5.0%	5.0%
Operating Expenses (% of Revenues)				30.0%	30.0%				30.0%	30.0%
Net Annual Operating Revenue ($/Unit)				$22,686	$22,686				$13,292	$13,292
Capitalization Rate				4.0%	4.0%				5.0%	5.0%
Revenue Before Commission ($/Unit)				$567,158	$567,158				$265,837	$265,837
Commission (3.0% of Revenues)				($17,015)	($17,015)				($7,975)	($7,975)
Net Revenue per Unit Excluding Land	**$1,029,957**	**$881,698**	**$675,875**	**$550,143**	**$550,143**	**$562,946**	**$433,216**	**$324,174**	**$257,861**	**$257,861**
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Total Soft Costs ($/Unit)	**$255,460**	**$220,878**	**$179,606**	**$150,807**	**$155,001**	**$160,197**	**$139,194**	**$108,119**	**$92,010**	**$93,308**
Residual Land Value ($/Unit)	**$357,181**	**$312,818**	**$221,134**	**$124,498**	**$105,131**	**$127,417**	**$63,467**	**$33,811**	**($13,009)**	**($23,390)**
Residual Land Value ($/Acre)	$1,785,904	$3,128,176	$3,538,148	$3,112,442	$4,205,253	$637,085	$634,666	$540,971	($325,235)	($935,620)

Pro Forma for Buena Creek

Pro Forma Analysis Detail: Unincorporated - Buena Creek

	2023					2013				
	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
Hard Costs										
Construction Costs ($/Gross SqFt)	$125	$140	$134	$164	$174	$81	$90	$86	$105	$111
Construction Cost + Appliances ($/Unit)	$342,243	$282,338	$226,461	$212,984	$225,775	$223,850	$184,571	$147,855	$138,378	$146,115
Parking ($/Unit)	$43,574	$43,574	$21,787	$6,800	$6,800	$27,306	$27,306	$13,653	$4,912	$4,912
Offsite Improvements ($/Unit)	$8,712	$4,356	$2,723	$1,742	$1,089	$6,293	$3,146	$1,966	$1,259	$787
Contractor Fee ($/Unit)	$54,642	$45,003	$45,067	$53,313	$56,347	$35,294	$28,930	$28,796	$34,314	$36,130
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Soft Costs										
Permits and Fees ($/Unit)	$54,815	$50,893	$34,870	$27,835	$26,306	$48,366	$45,495	$30,158	$23,354	$22,191
Financing Costs ($/Unit)	$36,112	$30,531	$32,198	$34,209	$35,767	$12,522	$10,620	$9,535	$10,749	$11,176
Other Soft Costs ($/Unit)	$73,234	$61,840	$48,914	$45,291	$47,490	$48,637	$41,098	$32,374	$29,941	$31,242
Preliminary Soft Costs ($/Unit)	**$164,162**	**$143,264**	**$115,982**	**$107,335**	**$109,562**	**$109,525**	**$97,212**	**$72,067**	**$64,043**	**$64,609**
Total Costs Before Developer Profit	$613,333	$518,535	$412,020	$382,173	$399,573	$402,268	$341,167	$264,337	$242,904	$252,552
Developer Profit (% of cost before land)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Developer Profit ($/Unit)	$61,333	$51,853	$41,202	$38,217	$39,957	$40,227	$34,117	$26,434	$24,290	$25,255
Total Costs Excluding Land	**$674,666**	**$570,388**	**$453,222**	**$420,391**	**$439,530**	**$442,495**	**$375,283**	**$290,770**	**$267,194**	**$277,808**
Revenues										
For Sale Units										
Price per Unit	$1,083,099	$924,294	$710,747			$587,061	$455,152	$338,061		
Commission (3.0% of Revenues)	($32,493)	($27,729)	($21,322)			($17,612)	($13,655)	($10,142)		
Rental Units										
Avg Monthl Rent ($/Unit)				$3,098	$3,098				$1,927	$1,927
Avg Vacancy Rate (%)				5.0%	5.0%				5.0%	5.0%
Operating Expenses (% of Revenues)				30.0%	30.0%				30.0%	30.0%
Net Annual Operating Revenue ($/Unit)				$24,164	$24,164				$15,029	$15,029
Capitalization Rate				4.0%	4.0%				5.0%	5.0%
Revenue Before Commission ($/Unit)				$604,104	$604,104				$300,587	$300,587
Commission (3.0% of Revenues)				($18,123)	($18,123)				($9,018)	($9,018)
Net Revenue per Unit Excluding Land	**$1,050,606**	**$896,565**	**$689,425**	**$585,981**	**$585,981**	**$569,449**	**$441,498**	**$327,919**	**$291,570**	**$291,570**
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Total Soft Costs ($/Unit)	**$257,988**	**$222,846**	**$178,506**	**$145,552**	**$149,520**	**$167,364**	**$144,984**	**$108,642**	**$88,333**	**$89,864**
Residual Land Value ($/Unit)	**$375,940**	**$326,177**	**$236,203**	**$165,590**	**$146,450**	**$126,954**	**$66,214**	**$37,148**	**$24,375**	**$13,762**
Residual Land Value ($/Acre)	$1,879,702	$3,261,771	$3,779,252	$4,139,757	$5,858,020	$634,772	$662,144	$594,376	$609,381	$550,480

Pro Forma for the City of Escondido

Pro Forma Analysis Detail: City of Escondido

	2023					2013				
	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
Hard Costs										
Construction Costs ($/Gross SqFt)	$125	$140	$134	$164	$174	$81	$90	$86	$105	$111
Construction Cost + Appliances ($/Unit)	$342,243	$282,338	$226,461	$212,984	$225,775	$223,850	$184,571	$147,855	$138,378	$146,115
Parking ($/Unit)	$43,574	$43,574	$21,787	$6,800	$6,800	$27,306	$27,306	$13,653	$4,912	$4,912
Offsite Improvements ($/Unit)	$8,712	$4,356	$2,723	$1,742	$1,089	$6,293	$3,146	$1,966	$1,259	$787
Contractor Fee ($/Unit)	$54,642	$45,003	$45,067	$53,313	$56,347	$35,294	$28,930	$28,796	$34,314	$36,130
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Soft Costs										
Permits and Fees ($/Unit)	$60,780	$56,872	$39,969	$35,208	$36,172	$43,782	$40,998	$30,532	$26,600	$26,260
Financing Costs ($/Unit)	$36,508	$30,927	$32,656	$34,978	$36,795	$12,366	$10,467	$9,550	$10,908	$11,375
Other Soft Costs ($/Unit)	$73,592	$62,198	$49,220	$45,733	$48,082	$48,362	$40,828	$32,396	$30,135	$31,486
Preliminary Soft Costs ($/Unit)	**$170,880**	**$149,997**	**$121,845**	**$115,919**	**$121,049**	**$104,510**	**$92,292**	**$72,478**	**$67,643**	**$69,121**
Total Costs Before Developer Profit	$620,051	$525,268	$417,883	$390,757	$411,059	$397,253	$336,247	$264,748	$246,504	$257,065
Developer Profit (% of cost before land)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Developer Profit ($/Unit)	$62,005	$52,527	$41,788	$39,076	$41,106	$39,725	$33,625	$26,475	$24,650	$25,706
Total Costs Excluding Land	**$682,056**	**$577,795**	**$459,672**	**$429,833**	**$452,165**	**$436,978**	**$369,871**	**$291,223**	**$271,155**	**$282,771**
Revenues										
For Sale Units										
Price per Unit	$1,051,426	$901,489	$689,963			$559,816	$435,610	$322,372		
Commission (3.0% of Revenues)	($31,543)	($27,045)	($20,699)			($16,794)	($13,068)	($9,671)		
Rental Units										
Avg Monthl Rent ($/Unit)				$2,971	$2,971				$1,870	$1,870
Avg Vacancy Rate (%)				5.0%	5.0%				5.0%	5.0%
Operating Expenses (% of Revenues)				30.0%	30.0%				30.0%	30.0%
Net Annual Operating Revenue ($/Unit)				$23,174	$23,174				$14,588	$14,588
Capitalization Rate				4.0%	4.0%				5.0%	5.0%
Revenue Before Commission ($/Unit)				$579,351	$579,351				$291,752	$291,752
Commission (3.0% of Revenues)				($17,381)	($17,381)				($8,753)	($8,753)
Net Revenue per Unit Excluding Land	**$1,019,884**	**$874,445**	**$669,264**	**$561,970**	**$561,970**	**$543,022**	**$422,542**	**$312,700**	**$282,999**	**$282,999**
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Total Soft Costs ($/Unit)	**$264,427**	**$229,569**	**$184,333**	**$154,994**	**$162,155**	**$161,029**	**$138,985**	**$108,624**	**$92,293**	**$94,828**
Residual Land Value ($/Unit)	**$337,828**	**$296,650**	**$209,593**	**$132,137**	**$109,805**	**$106,044**	**$52,670**	**$21,478**	**$11,844**	**$228**
Residual Land Value ($/Acre)	$1,689,140	$2,966,497	$3,353,482	$3,303,435	$4,392,204	$530,218	$526,702	$343,640	$296,111	$9,107

Pro Forma for the City of Chula Vista

Pro Forma Analysis Detail: City of Chula Vista

	2023					2013				
	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
Hard Costs										
Construction Costs ($/Gross SqFt)	$125	$140	$134	$164	$174	$81	$90	$86	$105	$111
Construction Cost + Appliances ($/Unit)	$342,243	$282,338	$226,461	$212,984	$225,775	$223,850	$184,571	$147,855	$138,378	$146,115
Parking ($/Unit)	$43,574	$43,574	$21,787	$6,800	$6,800	$27,306	$27,306	$13,653	$4,912	$4,912
Offsite Improvements ($/Unit)	$8,712	$4,356	$2,723	$1,742	$1,089	$6,293	$3,146	$1,966	$1,259	$787
Contractor Fee ($/Unit)	$54,642	$45,003	$45,067	$53,313	$56,347	$35,294	$28,930	$28,796	$34,314	$36,130
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Soft Costs										
Permits and Fees ($/Unit)	$74,938	$69,758	$55,710	$50,222	$49,451	$53,823	$49,584	$41,279	$34,844	$34,391
Financing Costs ($/Unit)	$37,447	$31,782	$34,070	$36,542	$38,179	$12,707	$10,759	$9,976	$11,312	$11,774
Other Soft Costs ($/Unit)	$74,441	$62,971	$50,164	$46,634	$48,879	$48,965	$41,343	$33,041	$30,630	$31,974
Preliminary Soft Costs ($/Unit)	**$186,826**	**$164,511**	**$139,945**	**$133,398**	**$136,509**	**$115,495**	**$101,686**	**$84,296**	**$76,787**	**$78,140**
Total Costs Before Developer Profit	$635,997	$539,782	$435,983	$408,237	$426,520	$408,238	$345,640	$276,566	$255,648	$266,083
Developer Profit (% of cost before land)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Developer Profit ($/Unit)	$63,600	$53,978	$43,598	$40,824	$42,652	$40,824	$34,564	$27,657	$25,565	$26,608
Total Costs Excluding Land	**$699,597**	**$593,760**	**$479,581**	**$449,061**	**$469,172**	**$449,062**	**$380,204**	**$304,222**	**$281,213**	**$292,692**
Revenues										
For Sale Units										
Price per Unit	$1,079,621	$921,790	$708,465			$553,036	$418,980	$318,467		
Commission (3.0% of Revenues)	($32,389)	($27,654)	($21,254)			($16,591)	($12,569)	($9,554)		
Rental Units										
Avg Monthl Rent ($/Unit)				$3,170	$3,170				$1,944	$1,944
Avg Vacancy Rate (%)				5.0%	5.0%				5.0%	5.0%
Operating Expenses (% of Revenues)				30.0%	30.0%				30.0%	30.0%
Net Annual Operating Revenue ($/Unit)				$24,722	$24,722				$15,161	$15,161
Capitalization Rate				4.0%	4.0%				5.0%	5.0%
Revenue Before Commission ($/Unit)				$618,059	$618,059				$303,216	$303,216
Commission (3.0% of Revenues)				($18,542)	($18,542)				($9,096)	($9,096)
Net Revenue per Unit Excluding Land	**$1,047,233**	**$894,136**	**$687,211**	**$599,517**	**$599,517**	**$536,445**	**$406,411**	**$308,913**	**$294,119**	**$294,119**
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Total Soft Costs ($/Unit)	**$282,814**	**$246,143**	**$204,797**	**$174,222**	**$179,161**	**$172,910**	**$148,820**	**$121,506**	**$102,352**	**$104,748**
Residual Land Value ($/Unit)	**$347,636**	**$300,376**	**$207,630**	**$150,457**	**$130,346**	**$87,383**	**$26,206**	**$4,691**	**$12,906**	**$1,428**
Residual Land Value ($/Acre)	$1,738,180	$3,003,761	$3,322,082	$3,761,416	$5,213,830	$436,915	$262,061	$75,051	$322,660	$57,106

Pro Forma for the City of San Diego

Pro Forma Analysis Detail: City of San Diego

	2023					2013				
	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH	2500 SFD	1800 SFD	Townhouse	Two-Story MFH	Four-Story MFH
Hard Costs										
Construction Costs ($/Gross SqFt)	$125	$140	$134	$164	$174	$81	$90	$86	$105	$111
Construction Cost + Appliances ($/Unit)	$342,243	$282,338	$226,461	$212,984	$225,775	$223,850	$184,571	$147,855	$138,378	$146,115
Parking ($/Unit)	$43,574	$43,574	$21,787	$6,800	$6,800	$27,306	$27,306	$13,653	$4,912	$4,912
Offsite Improvements ($/Unit)	$8,712	$4,356	$2,723	$1,742	$1,089	$6,293	$3,146	$1,966	$1,259	$787
Contractor Fee ($/Unit)	$54,642	$45,003	$45,067	$53,313	$56,347	$35,294	$28,930	$28,796	$34,314	$36,130
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Soft Costs										
Permits and Fees ($/Unit)	$71,205	$62,428	$51,224	$45,072	$43,798	$44,585	$42,111	$33,644	$27,329	$26,008
Financing Costs ($/Unit)	$37,199	$31,296	$33,667	$36,005	$37,590	$12,393	$10,504	$9,674	$10,944	$11,363
Other Soft Costs ($/Unit)	$74,217	$62,532	$49,895	$46,325	$48,540	$48,411	$40,895	$32,583	$30,179	$31,471
Preliminary Soft Costs ($/Unit)	**$182,622**	**$156,256**	**$134,786**	**$127,402**	**$129,928**	**$105,388**	**$93,511**	**$75,900**	**$68,451**	**$68,842**
Total Costs Before Developer Profit	$631,793	$531,527	$430,824	$402,241	$419,938	$398,132	$337,465	$268,170	$247,313	$256,786
Developer Profit (% of cost before land)	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Developer Profit ($/Unit)	$63,179	$53,153	$43,082	$40,224	$41,994	$39,813	$33,746	$26,817	$24,731	$25,679
Total Costs Excluding Land	**$694,972**	**$584,679**	**$473,907**	**$442,465**	**$461,932**	**$437,945**	**$371,211**	**$294,987**	**$272,044**	**$282,464**
Revenues										
For Sale Units										
Price per Unit	$1,579,714	$1,281,857	$1,036,634			$766,291	$601,346	$441,271		
Commission (3.0% of Revenues)	($47,391)	($38,456)	($31,099)			($22,989)	($18,040)	($13,238)		
Rental Units										
Avg Monthl Rent ($/Unit)				$3,815	$3,815				$2,406	$2,406
Avg Vacancy Rate (%)				5.0%	5.0%				5.0%	5.0%
Operating Expenses (% of Revenues)				30.0%	30.0%				30.0%	30.0%
Net Annual Operating Revenue ($/Unit)				$29,757	$29,757				$18,764	$18,764
Capitalization Rate				4.0%	4.0%				5.0%	5.0%
Revenue Before Commission ($/Unit)				$743,925	$743,925				$375,274	$375,274
Commission (3.0% of Revenues)				($22,318)	($22,318)				($11,258)	($11,258)
Net Revenue per Unit Excluding Land	**$1,532,323**	**$1,243,401**	**$1,005,535**	**$721,607**	**$721,607**	**$743,302**	**$583,305**	**$428,033**	**$364,016**	**$364,016**
Total Hard Costs ($/Unit)	**$449,171**	**$375,271**	**$296,038**	**$274,839**	**$290,011**	**$292,743**	**$243,954**	**$192,270**	**$178,861**	**$187,944**
Total Soft Costs ($/Unit)	**$293,192**	**$247,864**	**$208,968**	**$167,626**	**$171,921**	**$168,190**	**$145,298**	**$115,955**	**$93,183**	**$94,520**
Residual Land Value ($/Unit)	**$837,351**	**$658,722**	**$531,628**	**$279,142**	**$259,675**	**$305,358**	**$212,094**	**$133,045**	**$91,972**	**$81,551**
Residual Land Value ($/Acre)	$4,186,755	$6,587,218	$8,506,056	$6,978,552	$10,386,988	$1,526,788	$2,120,939	$2,128,722	$2,299,290	$3,262,060

10 APPENDIX C: HARD COST ESTIMATE METHODOLOGY

Each Typology's hard construction costs were estimated by developing baseline typology cost outputs from the RSMeans construction cost estimation platform and then modified to reflect additional costs specific to the typologies developed, such as parking and home appliance costs along with estimated costs imposed by new state regulations implemented over the 2013 – 2023 period.

RSMeans' Square Foot Estimator module

The hard cost estimates shown in this report were generated through RSMeans' "Square Foot Estimator" (SFE) data module. The SFE generates typical construction budgets based on several user inputs, including: the location of the building (state and county); the year of construction (2007 – 2023); the type of building (single-family, apartment building, etc.); the structure's total square footage; the number of stories; the quality of the build (Economy, Average, Custom, or Luxury); and the materials used for the framing and walls.

Figure 55 – Typology inputs for RSMeans' Square Foot Estimator

	Large SFD	Small SFD	Townhouse	Two-Story MFH	Four-Story MFH
Building Area (S.F.)	2,500	1,800	1,500	31,250	50,000
Build Quality	Average	Average	Average	N/A	N/A
Stories	2	2	2	2	4
Wall/Framing Type	Stucco on Wood Frame	Stucco on Wood Frame	Stucco on Wood Frame	Fiber Cement / Wood Frame*	Fiber Cement / Wood Frame*

*RSMeans only offers the Fiber Cement / Wood Frame option as a possible input for the years 2016 - 2023. Therefore, to ensure parity between building types for our 2013 and 2023 MFH hard cost estimates, we deflated the 2016 price estimate by regional construction cost inflation over the 2013 - 2016 period.

The SFE output for each Typology provided estimated line-item costs for each building "assembly," such as the foundation, exterior walls, framing, and interiors. Each assembly's total cost is allocated across several "units," such as wooden joists, paint, staircases, or bathroom sinks. The prices of the units and assembly derive from RSMeans' industry surveys conducted across the United States.

This baseline SFE output excludes expenditures on home appliances, parking, and off-site improvements. These costs were separately added to the SFE baseline:

- *Appliances & amenities:* For every unit in all typologies, costs for basic home appliances we added.[151] For the SFD and Townhouse typologies, the output was further modified to include air conditioning. (The default apartment building in the SFE comes with air conditioning, so no modification was necessary.)
- *Parking:* For the SFD typologies, each home has an attached two-car garage. For the Townhouse typology, each unit includes a one-car garage. For the 2-Story and 4-Story MFH typologies, two surface level parking spaces are provided per unit.

Total costs for each of these modifications are shown in Figure 57, below.

RSMeans does not differentiate between sub-regions within the San Diego metropolitan area; furthermore, interviews with building officials and developers in the region confirmed that hard construction costs – for the same structure – would not vary substantially across the individual jurisdictions and locations in the region. Therefore, hard cost estimates do not vary across Study

[151] Added appliances included one of each of the following per unit: 30" free standing range with oven; range hood; microwave oven; washing machine; dryer; refrigerator; and dishwasher.

locations.

Modifying the SFE Output to Reflect Building Code Changes

While the SFE provides a sound basis for determining changes in hard costs within the same location over time, one limitation to this approach is that RSMeans' cost estimates do not fully capture differences in building codes across regions or impacts from building code changes within the same region over time. Because the state has enacted several major updates to its various building codes sections over the past 10 years, accurate estimation of hard cost inflation in California requires adjusting the 2023 hard cost estimates to reflect the costs imposed by new regulation.

Figure 56 , below, displays five key sources of building costs attributable to code updates enacted since 2013. Total estimated "regulatory costs" per unit range from a low of roughly $6,500 per 2-Story MFH unit to over $11,000 in added costs for each new Large SFD. Four of the five code changes shown were passed by the California Energy Commission (CEC). The most significant update in recent years was the CEC's 2019 decision to set minimum roof-top solar generation requirements for new "low-rise" residential developments (subject to limited exceptions). As of January 2023, new multi-family developments of four or more stories must include both roof-top solar and an on-site battery storage system. State law also now requires new SFDs to provide "EV-capable" parking spots. For multi-family developments, 10% of provided spaces must be EV-Capable and 25% must be "EV-Ready."[152]

Another key source of added regulatory costs derive from the State Water Resources Control Board. Residential developers must secure a "Construction Stormwater General Permit," which requires developers to both plan for and monitor stormwater management during the construction phase and in some cases install management structures for stormwater retention and treatment that remain after building completion.

Given the breadth of the various sections of the building codes[153] and the complexity of the triannual updates, it is not possible to provide an exhaustive accounting of all residential code-related cost impacts from the code amendments enacted over the 10-year Study period. The impacts included below, in Figure 57, cover these major items. The incorporation of regulatory cost impacts raises overall estimated hard cost inflation by roughly 3 – 5%, depending on the typology.

[152] Explain.

[153]

Figure 56 - Regulatory code cost impacts (2013 – 2023)[154]

	Large SFD	Small SFD	Townhouse	Two-Story MFH	Four-Story MFH
Solar Panel Installation					
Generation (kW)	3.0	2.5	4.7	54.8	110.5
Total cost, all units	$4,377	$3,732	$6,910	$80,620	$162,435
Cost per unit	**$4,377**	**$3,732**	**$3,455**	**$3,225**	**$4,061**
Electric Vehicle Charging					
EV-Capable Spaces	2	2	2	5	8
EV-Ready Spaces	-	-	-	13	20
Total cost, all units	$1,740	$1,740	$1,740	$35,600	$56,960
Cost per unit	**$1,740**	**$1,740**	**$870**	**$1,424**	**$1,424**
On-site battery storage					
Capacity (kWh)	-	-	-	-	116.8
Total cost, all units	-	-	-	-	$81,740
Cost per unit	**-**	**-**	**-**	**-**	**$2,044**
Pre-2016 CEC Updates					
Cost per unit	**$2,700**	**$1,944**	**$1,620**	**$1,350**	**$1,350**
Stormwater Management					
Acreage per parcel	0.2	0.1	0.15	1	1
Total cost, all units	$2,560	$1,280	$1,920	$12,800	$12,800
Cost per unit	**$2,560**	**$1,280**	**$960**	**$512**	**$320**
TOTAL COST per unit	**$11,377**	**$8,696**	**$6,905**	**$6,511**	**$9,198**

Figure 57 – hard costs summary & inflation

	Large SFD	Small SFD	Townhouse	Two-Story MFH	Four-Story MFH
Baseline SFE cost output	$300,618	$243,394	$193,920	$198,197	$208,300
Appliances & Modifications*	$30,248	$30,248	$25,636	$8,276	$8,276
Parking	$43,574	$43,574	$21,787	$6,800	$6,800
Off-Site Improvements	$8,712	$4,356	$2,904	$1,742	$1,089
Contractor Fees**	$91,070	$75,005	$56,379	$53,313	$56,347
Sub-total (RS Means)	**$474,222**	**$396,577**	**$300,626**	**$268,328**	**$280,812**
% Increase from 2013 (sub-total)	49.8%	50.5%	50.5%	49.7%	49.2%
Code impacts	**$11,377**	**$8,696**	**$6,905**	**$6,511**	**$9,198**
Total costs	**$485,599**	**$405,273**	**$307,532**	**$274,839**	**$290,011**
% Increase from 2013	53.4%	53.8%	54.0%	53.4%	54.0%

Comparison Of SFE-Based Inflation to RSMeans CCI and Other Hard Cost Inflation Measures

While the aggregate hard cost inflation estimates, as shown in Figure 57, are broadly aligned with other measures, RSMeans' Construction Cost Index (CCI) for San Diego shows higher construction cost inflation—61% over the 2013 – 2023 period—than the hard cost inflation generated by the SFE for each typology, which ranged from 49.2% to 50.5% over the 10-year period, exclusive of building code change impacts (Figure 57). There are likely two reasons for this discrepancy.

[154] BSCG analysis of state building code. To calculate the necessary size of each Typology's solar panel installation and on-site battery system, we used the algorithms established by the California Energy Commission (CEC) for its 2023 code update. See "2022 Reference Appendices," California Energy Commission, August 2022. Installation costs per kilowatt or kilowatt-hour were based on figures from a recent Frontier Energy, Inc. analysis of the costs and benefits of all-electric construction. See "2022 Cost-Effectiveness Study: Multi-Family New Construction," California Energy Codes and Standards, February 28, 2023. EV infrastructure costs were based on the California Air Resources Board's 2019 cost-benefit analysis. See "EV Charging Infrastructure: Nonresidential Building Standards," California Air Resources Board, November 15, 2019. Stormwater management costs may vary substantially across projects. The costs shown here derive from work previously conducted for Construction Industry Coalition on Water Quality (CICWQ).

First, RSMeans' CCI is based on changes in construction costs across a wide range of building types. Of the nine building types included in the CCI composite, only one—a 1-3 story apartment building—has a residential use (the others include offices, retail, factories, and other non-residential structures).[155]

Second, even among the various residential build types made available through the SFE, the inflation rates over the 2013 – 2023 period can vary. Under certain alternative user inputs (e.g., the use of "Luxury" build qualities instead of "Average"), the calculated inflation over the 2013-2023 period sometimes exceeded the hard cost inflation shown in Figure 57. None of the SFE-generated outputs, however, resulted in hard cost inflation above 57%.

Ultimately, given the difference between home price appreciation and hard cost inflation over the Study period, this report's central findings are not sensitive to small differences in assumptions about changes in costs for building materials, size, or quality. For any possible residential typology, the hard cost inflation estimates generated by any of the data sources discussed in this report—including RSMeans, ENR, and BLS—lag far behind the rate of sales prices and rents growth.

[155] RSMeans, "City Cost Indexes: How to Use the City Cost Indexes."

11 APPENDIX D: DATA SOURCES

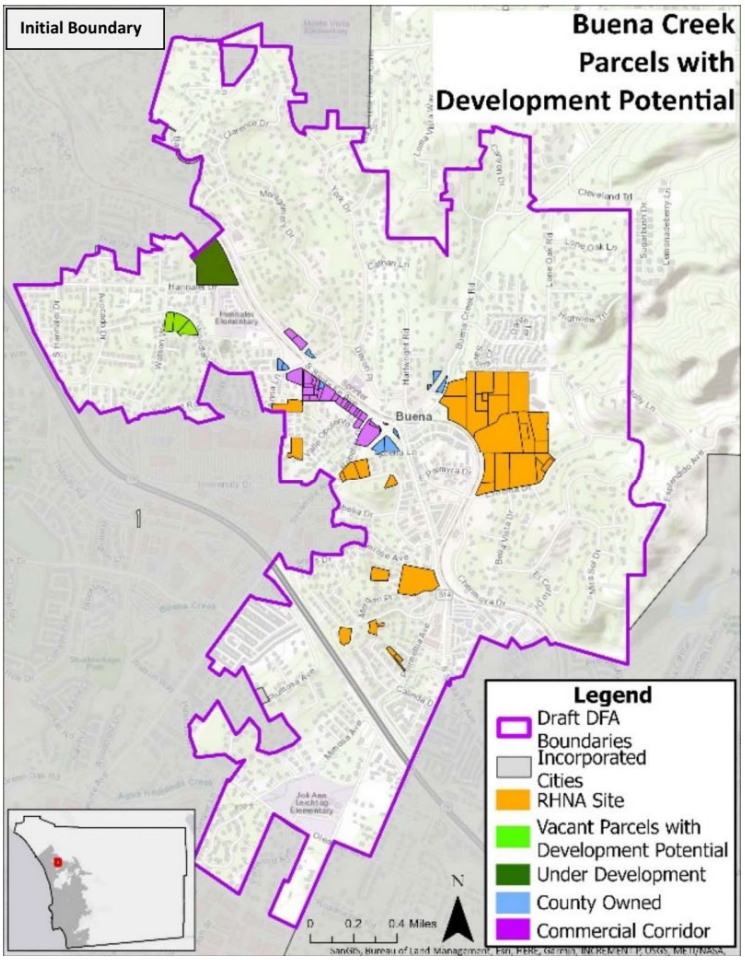
#	Source	Title	Dates	Summary	Source / Link
1	Case-Shiller	Case-Shiller San Diego Home Price Index	2000 - 2023	The Case-Shiller index tracks single-family home values in several markets countrywide, including the San Diego region.	https://fred.stlouisfed.org/series/SDXRSA
2	Redfin	Data Center / New Construction & Investor Data	2013 - 2023	Redfin's Data Center publishes county-level sales data for both median-priced existing construction and newly constructed homes. The dataset shows, for each 90-day period between 2012 and 2023, the median total and median per-square-foot values for both construction types across a range of building types (i.e., single family, townhouse, condo, etc.), allowing the user to estimate the price spread between new and existing homes county-wide.	https://www.redfin.com/news/data-center/new-construction/
3	Redfin	Sales Platform	2022 - 2023	Redfin's search functionality allows users to download sales transactions within specified regions dating back five years. This data was used to inform a regression analysis that predicts a home's sale price depending on its attributes.	https://www.redfin.com
4	Zillow	Zillow Observed Rent Index	2015 - 2023	Index shows typical rent across many zip codes, cities, and unincorporated neighborhoods in San Diego County.	https://www.zillow.com/research/data/
5	County Assessor	Property Tax Roll	2013 - 2023	Used to estimate trends in raw land values across San Diego County.	San Diego County

6	Federal Housing Finance Agency (FHFA)	"Working Paper 19-01: The Price of Residential Land" & Related Dataset	2012 - 2021	Economists at the FHFA collected millions of single-family home appraisals that were conducted in connection with mortgage issuances over the period 2012 - 2019 to estimate residual land values (i.e., by subtracting each home's construction cost from its sales price). These results were published as a dataset that allows users to determine per-quarter-acre land values in states, counties, and zip codes across the country. In 2022, researchers at the American Enterprise Institute (AEI) gathered more recent data on trends in home values to extend this analysis through the year 2021.	FHFA Paper (2019): https://www.fhfa.gov/PolicyProgramsResearch/Research/Pages/wp1901.aspx AEI follow-up analysis (2022): https://www.aei.org/housing/land-price-indicators/
7	RSMeans	Construction Cost Estimates	2011 - 2023	RSMeans tracks regional and national construction costs across a wide range of building materials, assemblies, and equipment. The database allows the analysis of hard construction costs within San Diego, across California, and in other metropolitan areas across the United States over the last 15 years.	https://www.rsmeansonline.com/
8	Bureau of Labor Statistics (BLS)	Consumer Price Index (CPI); Producer Price Index (PPI)	2013 - 2023	The PPI shows changes in (national) prices quoted and received for goods and services across a wide range of domestic industries. For the residential construction industry, data are available for price changes across a variety of commodities (e.g., lumber, steel, plastics), as well as aggregated data showing changes in the prices paid for a bundle of products by residential construction firms. CPI is reported both nationwide and regionally.	For CPI: https://www.bls.gov/regions/west/news-release/consumerpriceindex_sandiego.htm For PPI: https://www.bls.gov/ppi/
9	Employment Development Department	Occupational Employment and Wage Statistics (OEWS)	2013 - 2022	OEWS survey data shows median and mean estimated wages across approximately 830 occupations statewide.	https://labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html

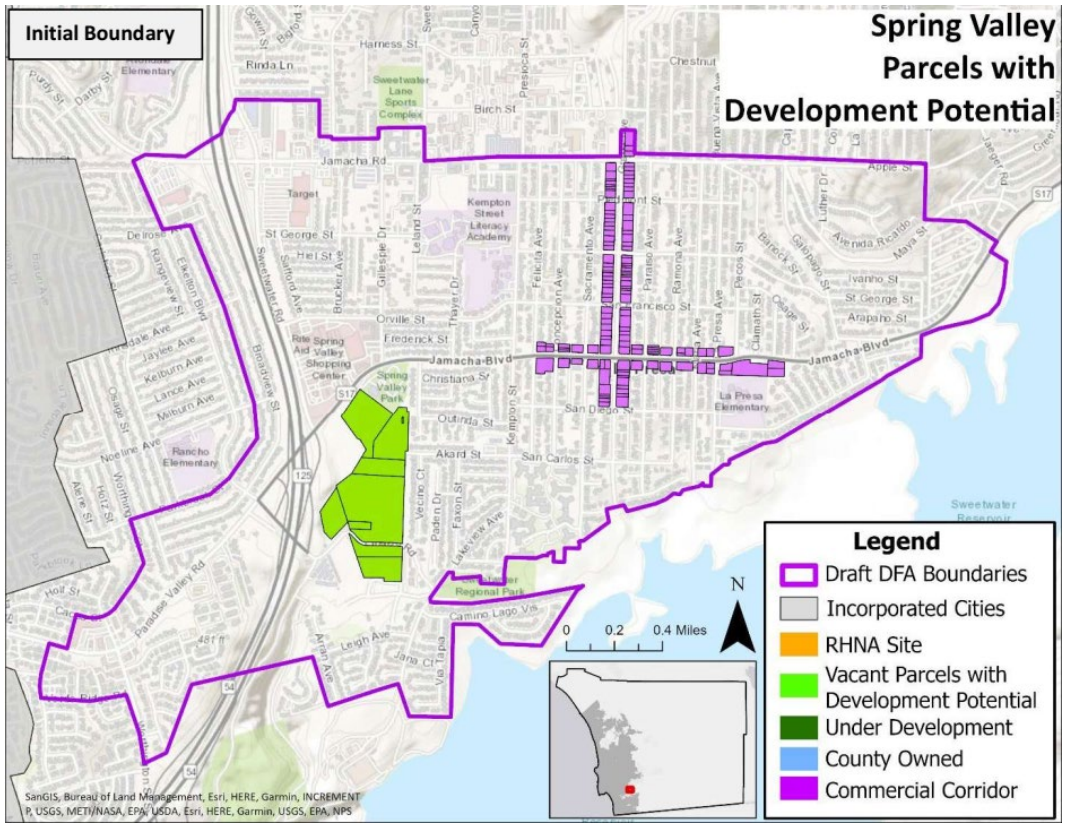
10	Engineering News-Record (ENR)	Building Cost Index (BCI)	2016 - 2023	ENR publishes its BCI and Construction Cost Index (CCI) on a monthly basis for 20 cities across the United States. California's Department of General Services (DGS) uses the average of the BCI for San Francisco and Los Angeles to derive a California Construction Cost Index (CCCI), also published monthly on DGS's website.	ENR: https://www.enr.com/economics DGS: https://www.dgs.ca.gov
11	California Tax Credit Allocation Committee (CTCAC)	Project Application Database	2013 - 2022	CTCAC project application data provide expected rental revenues, land acquisition costs, and expected hard and soft construction costs.	https://www.treasurer.ca.gov/ctcac/tax.asp
12	Planning and Development Services (PDS)	Project approval / permitting	2013 - 2023	PDS data was used to estimate discretionary approval and building permit review timelines.	San Diego County
13	State Dept. of Housing and Community Development (HCD)	Annual Progress Reports	2018 - 2022	HCD's Annual Progress Reports (APR), collected from every jurisdiction statewide, are intended to track entitlement, permitting, and building completion data. APR data allows users to compare rates of housing production across jurisdictions, starting in 2018. (Inconsistencies in reporting, however, make it difficult to compare of County permitting timelines to those in other jurisdictions.)	https://www.hcd.ca.gov/planning-and-community-development/annual-progress-reports
14	U.S. Census	Building Permits Survey	2013 - 2023	This survey tracks permitting timelines (i.e., months between application and permit issuance) across Census regions.	https://www.census.gov/construction/bps/index.html

12 APPENDIX E: DEVELOPMENT FEASIBILITY AREAS

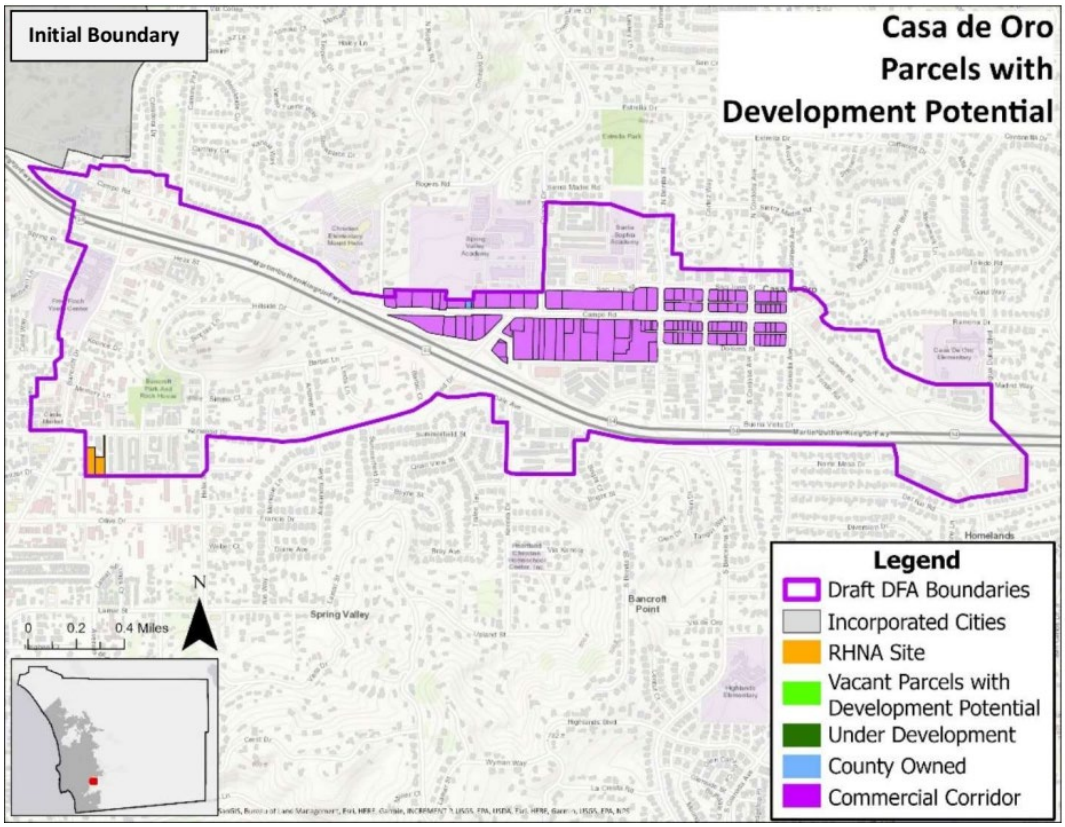
Buena Creek



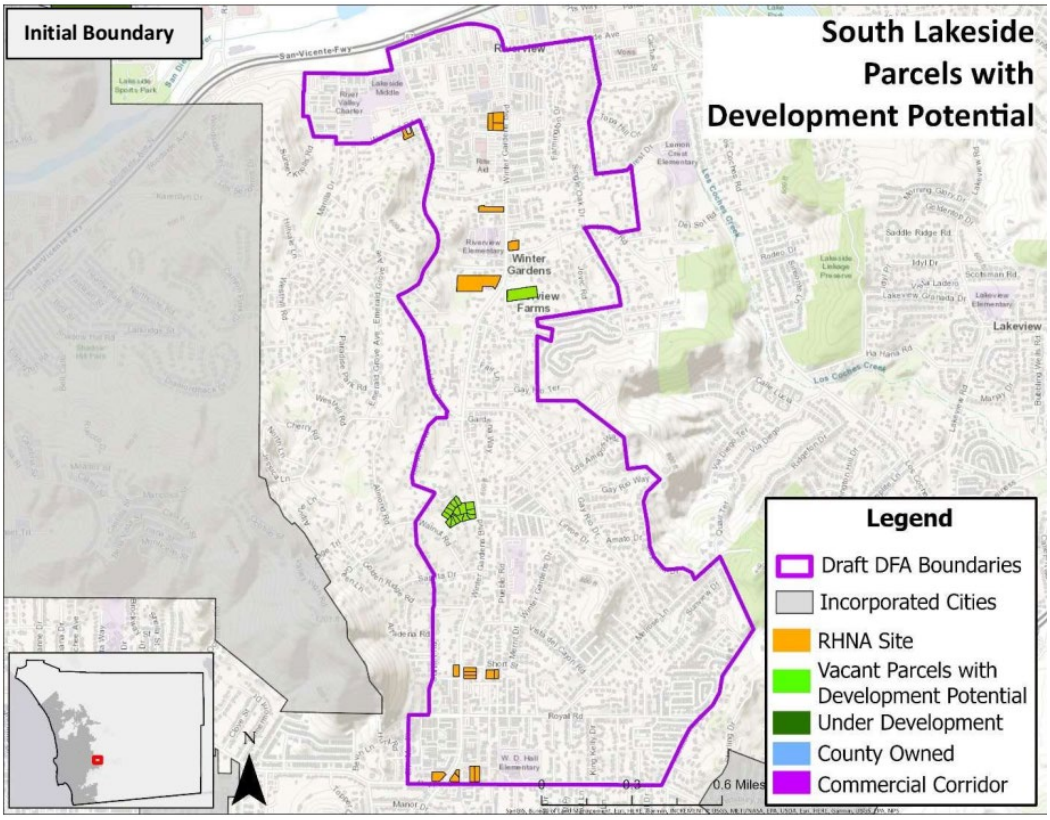
Spring Valley



Casa de Oro



Lakeside


Initial Boundary
South Lakeside
Parcels with
Development Potential
Legend
Draft DFA Boundaries
Incorporated Cities
RHNA Site
Vacant Parcels with
Development Potential
Under Development
County Owned
Commercial Corridor
Winter
Gardens
Lakeview
N
0.6 Miles

13 APPENDIX F: COMMUNITY ENGAGEMENT SUMMARY

DISCUSSION OF COMMUNITY ENGAGEMENT ACTICITIES TO BE PROVIDED IN SUBSEQUENT DRAFT