

Inclusionary Housing in San Diego: An Economic Analysis

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I. Executive Summary

The Real Estate Institute at the University of San Diego was retained by the Building Industry Association to produce an economic analysis of an inclusionary housing program in San Diego. A general conclusion is that, in general, it is not economically feasible for private for-profit developers/builders to build low-income housing. Requiring them to do so as part of an inclusionary policy imposes significant costs that either must be offset through financial incentives or are passed along to market-rate renters or buyers. Non-profit institutions that have specialized knowledge of, and access to, low-cost financing that is specifically designed for this purpose, can produce low-income housing. The economic benefits of production through specialization are well-known and widely understood. Inclusionary housing programs ask for-profit developers/builders to move outside their area of specialization and by doing so imposes costs on them. Off-setting these costs with financial incentives simply re-directs scarce taxpayer resources away from those non-profit institutions that are efficient at producing low-income housing and towards firms that are not efficient at producing low-income housing. As a result of this wasteful and inefficient spending, costs are imposed on society at-large.

The study reviews existing inclusionary housing programs and analyzes the effects of an inclusionary program in San Diego. We find the economic effects of an inclusionary housing program, in which for-profit builders and developers build the units, to be:

Finding #1: An inclusionary housing program would help some moderate-income households but not many low or very low-income households.

Finding #2: An inclusionary housing program would help some small households but not many large households.

Finding #3: An inclusionary housing program would not produce a steady and reliable stream of low-income housing.

Finding #4: A reason low-income housing is unaffordable in San Diego is its restrictive regulatory environment.

Finding #5: The benefits of economic and racial integration, at the city-block level, are unknown.

Finding #6: Cost-offsets in the form of either lesser quality units, density bonuses, or fee reductions generally are too small.

Finding #7: Specialized low-cost financing, like the LIHTC, allows the production of affordable low-income housing units.



Finding #8: For the same cost, more households can be helped through income subsidies than from the production of inclusionary units.

Finding #9: Inclusionary units may not go to those who value them the most.

Finding #10: Most inclusionary units will be built in low-income areas.

Finding #11: Inclusionary housing programs may make housing less affordable.

Finding #12: Inclusionary housing programs may not result in any additional low-income housing.

Finding #13: When inclusionary housing programs make housing less affordable, middle-income households are pushed out and down to lower quality units while the program places low-income households in higher quality units.

