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Housing Affordability in the South Coast: Impacts of Past Policies and Potential Pathways for the Future

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About the Study

Housing Affordability in the South Coast: Impacts of Past Policies and Potential Pathways for the Future was prepared by Rosen Consulting Group for the Santa Barbara Association of REALTORS®. This report provides context on the extent and impacts of the housing shortage in the South Coast, and the resulting affordability crisis, with a focus on economic and demographic drivers of housing demand, and historical and on-going factors limiting housing development. The research is intended to provide useful data and context on the housing affordability crisis in the South Coast, in order to help guide future policy-making, and inform local discussions on one of the most critical issues facing the region.

About Rosen Consulting Group

Rosen Consulting Group (RCG) is a leading independent real estate economics consulting firm. Founded in 1990 and with offices in Berkeley and New York, RCG provides strategic consulting and unbiased investment guidance through all market cycles. RCG is a trusted advisor to leading banks, insurance companies, institutional investors, public and private real estate operators and industry trade groups. For more information go to www.rosenconsulting.com.

Executive Summary

Reflecting the desirability of property in the South Coast, the limited availability of land and the many hurdles to new development, the region consistently ranks among the most expensive housing markets in the nation. A long history of limited new supply, high barriers to entry, and an extremely tight market also put upward pressure on the costs of housing in recent years. In light of these critical issues, this report aims to provide context on the extent and impacts of the housing shortage in the South Coast, and the resulting affordability crisis through an in-depth analysis of the economic, demographic and housing market conditions in the South Coast. In particular, RCG highlights the growing affordability crisis and the many factors limiting housing development. Finally, the report provides potential policy pathways to help foster greater housing production, increase affordability, and protect the future economic vitality of the region.

Historical Context

- Beginning with the oil spill off the coast of Santa Barbara in 1969, existing owners in the South Coast pushed for stricter legislation regarding both environmental conservation and historical preservation.
- These efforts had notable environmental benefits over time; however, well-intentioned measures to protect the environment and historically significant sites spurred local anti-growth policies and land-use requirements, and largely stalled development for the next two decades throughout much of the South Coast.
- In the years immediately leading up to (and even during) the ongoing pandemic, some of the historical anti-growth policies have started to shift, largely a result of the statewide legislation and planning requirements in recent years.
- Yet, the social and political culture in communities across the South Coast still generally remains an obstacle to growth.

Economics of the South Coast

- Before the pandemic-related layoffs, employment in the leisure and hospitality sector accounted for nearly 15% of all jobs. Outside of this flagship sector, employment is most concentrated in the professional and business services, government, and information services sectors.
- As of November 2021, 65.9% of jobs lost in the Santa Barbara metro area during the pandemic-induced downturn were recovered, lagging the nationwide recovery of 82.5%.
- The unemployment rate recently stabilized in the mid-5% range, compared with 3.8% in February 2020.
- While the share of earners in the highest income bracket ($200,000 or more) was significantly greater in the South Coast than the state average, there were also a substantial share of households in lower-income segments.This included many of the service and retail workers who support the vital leisure and hospitality sector in the region, as well as college and graduate students, who, despite their limited incomes, often have access to financial aid, student loans or family support to help cover housing expenses.
- In response to rising housing costs, more workers were forced to take on longer commutes in recent years to access employment opportunities in the South Coast. Compared with the statewide average, nearly twice the share of people employed in the South Coast drove more than 50 miles to work. Long commutes were disproportionately concentrated among low- and moderate-income households and households of color.

Demographic Trends

- Population growth in most cities in the county fell far behind the state average during the past decade.
- The population in the 20 to 24 years and 60 or more year-old age categories were disproportionately large in the South Coast—reflecting the sizable number of college students and retirees.
- Notably, the relative shortage of prime, working-age residents living in the South Coast limits spending, tax revenue and economic activity, and may limit the economic competitiveness of the region going forward.
- In terms of diversity, equity and inclusion, the South Coast significantly lags behind the rest of the state. Indeed, Asian, Black, Hispanic, and multiracial residents were underrepresented, compared with the rest of the state, and households of color disproportionately face barriers related to the limited availability of affordable housing, including cost burdens, financial instability, long commutes, and numerous hurdles in terms of achieving homeownership.
- As home to several instutitions of higher education, including the University of California, Santa Barbara, Santa Barbara City College, Westmont College and Pacifica Graduate Institute, the student population (nearly 43,000) in the South Coast represents almost one-quarter of the total adult population as of 2019. Students account for a major source of housing demand, especially for smaller and lower-cost rental units.

Housing Supply

Underproduction of Housing

- Household formation and population growth in the South Coast slowed significantly in recent decades, a trend that largely reflected the underlying lack of housing development. Without housing units to move into, new residents were not able to move to South Coast communities, and current residents could not form new households or find affordable homes to start families.
- Relative to the historical average from 1980 to 1999, the shortfall in housing production for the Greater South Coast totaled 8,900 housing units from 2000 to 2020. **In fact, if the Greater South Coast permitted at double the pace of recent years (permits averaged 580 units annually from 2016 to 2020), it would take more than 15 years to fill this housing shortfall.**
- Even while housing production across the state slowed dramatically during the last two decades, production slowed even more significantly in the South Coast. If the local share of state permitting had remained constant from 2000 to 2020, county-wide residential permitting would have totaled approximately 21,500 housing units, compared with the actual total of slightly more than 18,700 units produced, a shortfall of 2,800 units. By this highly conservative measure, the shortfall for the Greater South Coast was even greater than the county-wide total, at 3,700 housing units.
- Beyond these broader estimates, the California Department of Housing and Community Development (HCD) also reiterated the undersupply of housing in the South Coast in the most recent Regional Housing Needs Assessment (RHNA). The South Coast region, specifically, was allocated nearly 60% of the countywide RHNA target, or 14,800 units.
- **Examining the period after jobs were fully recovered from the Great Recession (starting in 2013) through the end of 2019 (pre-Pandemic), South Coast cities added more than 4.3 jobs for each new housing unit permitted, a highly unsustainable rate that roughly compared with four jobs per unit at the county level, and 3.8 jobs per unit statewide.**
- Amid the broader shortfall in housing production in the South Coast region, the permitting of two-to-four-unit multifamily residences was especially lacking in recent years.
- While rent control is often proposed as a method to combat rising unaffordability, in the long-run, rent control reduces housing supply and further strains the housing market.

Lack of Available Housing

- **As a result of the decades of underbuilding, the age distribution of the local housing stock is significantly older than the rest of the state and the country. In fact, a full one-third of the total South Coast housing stock was built between the start of the Second World War (1939) and when Alaska and Hawaii became the 49th and 50th states (1959).**
- While UCSB and City College are also major drivers of the local economy, the lack of dorm development contributed to overcrowding in parts of the region, and further exacerbated the limited availability of housing.
- As a result of both the significant underproduction of housing as well as the large share of seasonal rentals and student-occupied housing, the supply of homes available to either rent or buy in the South Coast was extremely limited.

Economic Benefits of Development

- Providing a sense of scale for the economic impact, RCG estimates that every 100 new single family homes built in the South Coast would generate $51.2 million in labor income, and provide additional economic activity of $109.7 million through the lifespan of the project. Similarly, RCG estimates that every 400 new multifamily units built would generate $67.4 million in labor income and provide additional economic activity of $115.4 million through the lifespan of the project.
- In addition to new employment and economic activity, every 100 new single family homes and 400 new multifamily units built would be expected to generate approximately $2.29 million and $2.03 million, respectively, in new local tax revenue, reflecting a wide range of activity, including taxes on production and imports net of subsidies, sales taxes, property taxes and other forms of revenues generated through the construction timeline.

Affordability

Pre-Pandemic Trends

- The rapid increase in apartment rents in the South Coast was not matched by income growth during the last decade. In fact, signing a new apartment lease in a professionally-managed apartment building had an average monthly rent of $2,200 in 2019 (according to Yardi Matrix) translating to approximately 45.6% of the median renter household income per year.
- More than 56% of renters in Santa Barbara County were considered cost burdened as of 2019, according to the Joint Center for Housing Studies at Harvard (JCHS). Additionally, more than one-quarter of all renters spent greater than 50% of their annual income on rent, and were considered severely cost-burdened.

- In the for-sale market, the pace of home price growth from 2013 to 2019 (36%), was more than double the growth in the overall median household income for all households (owners and renters) in the South Coast, which increased by only 16%.
- RCG estimated that only 14.8% of all households in the South Coast (including renters and existing homeowners) were able to afford the monthly costs associated with the median-priced home as of 2019, compared with the statewide affordability rate of 30.9%. Additionally, the affordability crisis was even more severe for South Coast renter households, as RCG estimated that less than 8% of renters had sufficient income to be able to afford the monthly payments on the median-priced single family home as of 2019.

Effects of the Pandemic

- As a result of the increase in the average rent during the COVID-19 pandemic, and the years preceding the pandemic, the annual household income needed to afford the average monthly rent grew to $95,800 as of November 2021, from only $76,1000 in November 2016, an increase of $19,700.
- Despite historically low mortgage rates, the especially sharp home price spike also put further downward pressure on the share of households in the South Coast able to afford the median-priced home. For South Coast renter households, the share able to afford the median-priced single family home was approximately half that of all households, with an estimated 6.5% affordability at year-end 2021.

Barriers to Development

- The scarcity of developable land in the South Coast contributes greatly to the high cost of land and adds significantly to the cost of housing production.
- Without improvements in water technology and infrastructure to improve efficiency, recovery, reuse and capacity, water will also remain a limiting factor for housing development in the South Coast, especially in the new subdivisions where water demand is substantial and infrastructure may be lacking.
- While construction costs are rising across the nation, barriers in the South Coast—particularly the lack of workforce housing—pose additional challenges and significantly increase the cost of the development.
- While community opposition has historically been a major factor hampering the growth of housing in the region, recent reforms, as mandated by the state, have signaled the potential for positive change, though many issues remain contentious.

Regulatory Regime

- Some of the most significant hurdles to housing development are consequences, both direct and indirect, of the land use regulatory regime in the South Coast. Examples of major costs and impacts of the current regulatory regime include:
- **Uncertainty and Risk:** uncertainty in time and likelihood of approval increases the difficulty in determining potential investment returns and in acquiring financing (especially for larger projects); increased carrying costs associated with long wait times; costs of land use consultants to guide projects through review; costs of redesigning plans.
- **Regulatory Hurdles:** inconsistent adherence to defined design standards and regulations, or a lack of clarity surrounding the application of those standards, increases design costs, adds uncertainty in the time necessary to review and approve projects and increases carrying costs; developers cannot easily transition development plans or experience from jurisdiction to jurisdiction; restrictive enforcement of local design requirements such as height, parking, density or amenities increases construction costs and reduce project viability and the total number of housing units built, even when individual project changes may seem small.
- **Fees and Consultancy Costs:** current fee schedules in South Coast jurisdictions are significant and often highly variable depending upon the length of the review process and the number of appeals required; the uncertainty in cost can detract from developer's ability to accurately predict cost and make it difficult to determine the feasibility of a project.
- **Inclusionary Zoning Requirements**: while possibly necessary to supply affordable housing in the near-term, when combined with other barriers, inclusionary zoning can add significant costs to housing projects; to offset even a small number of affordable units, prices on other units likely must increase; without mechanisms to offset these costs such as density bonuses, developers may not be able to capture sufficient revenue to balance the costs of subsidizing the affordable units.
- In the current environment, the only types of housing that can effectively be brought to market in the South Coast are highly subsidized affordable units, or high-priced, luxury units that can generate enough revenue to offset previously mentioned costs.

Policy Pathways

Key strategies and policy pathways to increase housing across the South Coast include:

- **Increase Certainty and Consistency in Design Review**: Increasing certainty and consistency in design review are likely two of the most important reforms that jurisdictions could make to improve not only the amount of housing that gets approved, but also the perception of the process within the private sector. Reforms could include setting more robust objective design standards, expanding the scope of applicable projects, offering pre-approved criteria or design elements, and creating a third-party appeals process.
    - *Advantages*: incentivize development, reduce approval timeline and associated costs
- **Designate a Project Coordinator**: A single designated project coordinator could be assigned by local jurisdictions to shepherd the project through the entire review process from start to finish, resolving discrepancies and addressing conflicts between the City and the developer.
    - *Advantages*: reduce uncertainty and inconsistency, facilitate permitting of housing projects, provide a designated point of contact and reduce potential for conflict or misunderstandings between developers and public officials or board members
- **Streamline Approval Process**: Local policymakers and city planners should shift towards a mentality focused on actively working to getting projects approved (i.e. finding ways to "get to yes") and work to align development goals across the region, such as by setting more steadfast limits on the number of meetings that can be held regarding a project and setting reasonable timelines for responding to applicants' queries.
    - *Advantages*: reduce approval timelines, create a more aligned regional approach to the permitting and approvals
- **Zoning and Density (AUD, FAR and Form-Based Code)**: Jurisdictions across the South Coast may be able to utilize the work already done for the City of Santa Barbara, regarding both the existing Average Unit Density (AUD) program and the proposed Floor-to-lot Area Ratio (FAR) program (recently rejected by the City Council), to create new density guidelines, density bonus programs and, where possible, to begin to develop a regional housing development framework. If appropriately designed, density bonuses could prove particularly effective, especially when accompanied by other incentives and policy reforms. Critically, projects need to be financially viable, with the potential to adequately cover construction costs and development loans, while achieving a sufficient profit margin to move forward with development.
    - *Advantages*: incentivize density with little direct cost to local jurisdictions, responsibly promote density in areas best suited for higher intensity uses, implementation already underway, form-based codes can expedite permitting
- See the table below for a summary of the proposed strategies and policy pathways detailed in the report.

Summary of Strategies and Policy Pathways

Name	Description	Advantages
Act on Recent State-Level Policies	Recent legislation at the state level (Senate Bill 35, Senate Bill 9, Senate Bill 10, Assembly Bill 1297, AB 602, etc.,) provide numerous regulations to streamline the local development approval process.	Swift implementation of development goals, shields local governments from backlash from vocal minorities promoting anti-growth policies
Zoning and Density (AUD, FAR and Form-Based Code)	Recent research for the City of Santa Barbara highlights the need to increase density and develop a regional development framework.	Incentivize density with little direct cost to local jurisdictions
Increase Certainty and Consistency in Design Review	Setting more robust objective design standards would improve not only the amount of housing that gets approved, but also the perception of the process.	Reduce approval timeline and associated costs
Designate a Project Coordinator	A single designated project coordinator could be assigned by local jurisdictions to shepherd the project through the entire review process from start to finish	Reduce uncertainty and inconsistency, reduce potential for conflict or misunderstandings between developers and public officials or board
Streamline Approval Process	Shift towards a mentality focused on actively working to getting projects approved (i.e. finding ways to "get to yes") and align development goals across the region.	Reduce approval timelines, create a more aligned regional approach to the permitting and approvals
Property Conversions, Adaptive Re-use, Up-zoning	Allow for easier conversion of underutilized or obsolete commercial properties.	Limited costs for cities, revitalization of areas of focus
Revitalization of Downtown Areas	Additional housing supply should take advantage of the walkable nature of the region's vibrant urban cores.	Increased density in areas with prime economic and infrastructure advantages
General Zoning Reforms	The region should emphasize increasing density near, and with access to, educational assets, including UCSB and City College.	Create creative zoning requirements that reduce cost burdens for housing projects
Prefab and Off-Site Construction	Innovation in the off-site construction industry offers significant potential to reduce costs and increase the production of housing.	Lowers the cost of housing, opportunities for preapproving plans and designs
Support Regional Housing Authorities and Non-profit Developers	Housing authority projects receive adequate support through the review process and expedited approvals wherever possible.	Supports the development of housing that would likely not be built in the current environment
Public Outreach and Coalition Building	A key piece of any policy strategy in the South Coast should include public engagement and outreach.	Boost public awareness and support, allow for more significant housing developments

Note: Further discussion of the above policies begins in the "Strategies and Policy Pathways" section of this report.
Source: RCG

Housing Affordability in the South Coast: Impacts of Past Policies and Potential Policy Pathways for the Future

I. Introduction

Since the incorporation of Santa Barbara as a city in 1850, new residents and tourists alike have flocked to the South Coast, drawn by the year-round moderate climate and the desirable beach-town community. The region is also host to several premier institutions for higher education, including the University of California, Santa Barbara,Santa Barbara City College, Westmont College and Pacifica Graduate Institute, which bolster the regional high-tech and knowledge economy job clusters. Reflecting the desirability of property in the South Coast for residents, workers and tourists, as well as limited opportunities for expansion, the region consistently ranks among the most expensive housing markets in the nation. As a result, housing cost burdens far exceed both the state and national average, especially when focusing specifically on renters. A long history of limited new supply, high barriers to entry, and an extremely tight market also put upward pressure on the costs of housing in recent decades, as restrictions first enacted in the 1970s continue to limit new development today. The onset of the COVID-19 pandemic exacerbated these issues, as accelerated housing cost growth and rising joblessness pushed homeownership even further out of reach of many renter households, while higher income residents with the ability to work remotely—a group who were also more likely to be existing homeowners—experienced income growth and rapid increases in home values. Together, these factors further increased existing socioeconomic and racial inequality in the region.

In light of these critical issues, this report aims to provide context on the extent and impacts of the housing shortage in the South Coast, and the resulting affordability crisis, through an in-depth analysis of the economic, demographic and housing market conditions in the South Coast. In particular, RCG will highlight the growing affordability crisis in the South Coast, and discuss the historical, and ongoing, factors limiting housing development. Finally, the report provides potential policy pathways for local stakeholders to consider in order to foster greater housing production, increase affordability and help protect the future economic vitality of the region.

RCG conducted extensive research as part of this report, including a series of detailed interviews with local stakeholders, including public officials, local developers and policy experts. Data was collected from a variety of local and national sources, including the Census Bureau (Census), the Bureau of Labor Statistics (BLS), the Department of Housing and Urban Development (HUD), the Santa Barbara County Association of Governments (SBCAG), and other government bodies. RCG also conducted an impact analysis using IMPLAN, a nationally recognized input-output modeling system, to approximate the potential economic impacts of increased housing development in the South Coast. Ultimately, this report is intended to provide useful data and context on the housing affordability crisis in the South Coast, in order to help guide future policy-making and inform local discussions on one of the most critical issues facing the region.

II. Historical Context for South Coast Housing & Land Use

From a land use perspective, Santa Barbara was at the forefront of city planning initiatives and was one of the first U.S. cities to institute a zoning ordinance, around the turn of the 20th century. The City of Santa Barbara subsequently established its first General Plan in 1964, outlining the City's future, during a time of significant population and housing growth.

In 1969, the infamous oil spill off the coast of Santa Barbara catalyzed the environmentalist movement in the area and, indeed across much of the state and nation. To safeguard the unique cultural, architectural and ecological character of the beach communities in the region, existing owners in the South Coast pushed for stricter legislation regarding both environmental conservation and historical preservation. These efforts likely had notable environmental benefits over time; **however, well-intentioned measures to protect the environment and historically significant sites have also been used to support broader, more indiscriminate, local anti-growth policies and land-use requirements, bringing housing development largely to a halt for the next two decades** throughout much of the South Coast. This trend had major ramifications on the existing stock of housing in the South Coast that extends to this day. Notable examples include the shortage of smaller multifamily buildings (2-4 units properties often referred to as the "missing middle"), as well as a lack of larger apartment developments, which translated to fewer older properties that would have aged over time to the point of being relatively more affordable than the newer product on the market today. Historically, both of these represent major sources of existing workforce housing across the nation.

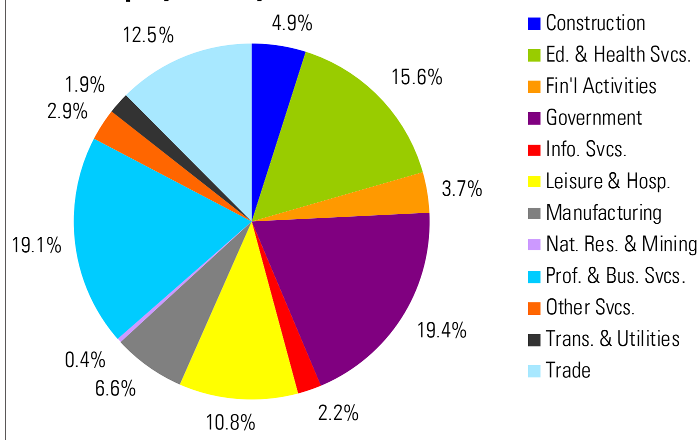
In the years immediately leading up to (and even during) the ongoing pandemic, some of the historical anti-growth policies have started to shift, in part a reflection of the statewide legislation and planning requirements. However, in many ways, the social and political culture in communities across the South Coast still generally resists growth, and significant barriers to housing development remain in place (as discussed later in the report). Over time, these factors have effectively reduced housing supply, increased housing costs, exacerbated the regional housing affordability challenges and disproportionately limited housing availability for low- and moderate-income households, many of whom were forced to commute long distances from outside the region to work in communities within the South Coast.

III. Economic and Demographic Overview

Geographical Definitions

For the purposes of this paper, RCG refers to several distinct geographies. The Santa Barbara metropolitan area (metro area) refers to the Santa Maria-Santa Barbara, CA Core-based Statistical Area (CBSA), which is equivalent to Santa Barbara County. Unless otherwise indicated in the text, the "South Coast" represents a smaller regional geography within Santa Barbara County, which includes the coastal cities of Carpinteria, Santa Barbara, and Goleta, as well as the surrounding unincorporated county area.

Local Employment by Sector



Sources: BLS, RCG

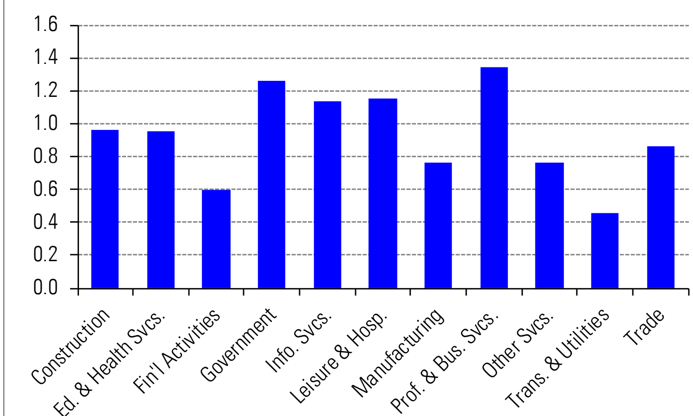
Current Economic Conditions

Economic Overview

Originally established as a Spanish mission, Santa Barbara became a city in April 1850, just a few months before California became the 31st state in the nation. As the region became increasingly more populous during the Gold Rush Era, the City of Santa Barbara and the greater South Coast area were developed as luxury tourist destinations. Today, the region is known not only for tourism, but is also home to the University of California, Santa Barbara (UCSB), a world-class research university, as well as a diverse group of industry clusters including healthcare and an emerging tech industry.

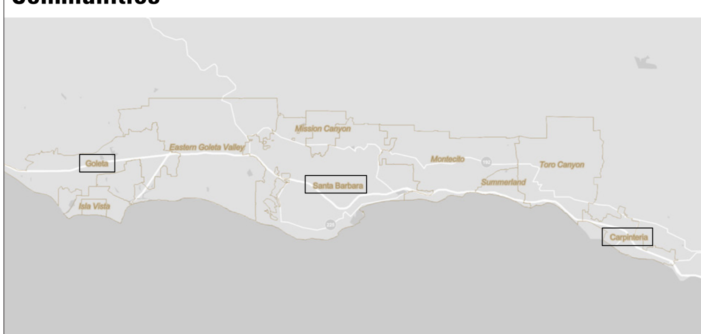
Known as the "American Riviera," tourism remains a major driver of economic prosperity in the South Coast. Tourists travel from across the state, country and world to enjoy picturesque beaches, travel Highway 1, stay at renowned resorts and walk along historic State Street. Before the pandemic-related layoffs, **employment in the leisure and hospitality sector accounted for nearly 15% of all jobs, among the highest of any sector. Outside of this flagship sector, employment in the Santa Barbara metro area is most concentrated in the professional and business services, government, and information services sectors.** Notably, employees at many public educational institutions, such

Location Quotients



Note: LQ represents the ratio of local employment in each sector relative to the national average.
Sources: BLS, RCG

Geography: South Coast Cities and Unincorporated Communities



Note: Outlines denote incorporated South Coast Cities
Source: Census

Major Employers in Santa Barbara County

Employer	Number of Employees
University of California, Santa Barbara	6,270
Raytheon	1,150
Sansum Clinic	1,020
Bacara Resort and Spa	600
Citrix Online	600
Tecolote Research	570
Goleta Union School District	570
Jordano's	560
Yardi Systems	540
Deckers Brands	480
FLIR Commercial Vision Systems	450
AppFolio	400
Karl Storz	350
Goleta Cottage Hospital	350

Note: Number of employees obtained from the Chamber of Commerce website in Dec. 2021.
Source: Santa Barbara South Coast Chamber of Commerce

as UCSB, are often classified as state government employees for purposes of labor market statistics. As seen in the nearby table, UCSB is by far the largest employer in the County, as well as a major research institution. With more than 6,000 employees, the university is a major driver of economic prosperity and stability in the region, and attracts global attention to the South Coast. While students at the university, as well as the highly-regarded Santa Barbara City College (City College), certainly occupy a significant portion of the existing local rental housing stock, students and employees also fuel considerable local economic activity, supporting businesses as customers and part-time and seasonal employees. In fact, this dynamic was highlighted through the pandemic, particularly as the delayed reopening of in-person classes represented a major hurdle for the economic recovery of the region following the pandemic-induced shutdowns.

Employment Recovery

From the start of the pandemic-induced recession in March 2020 through mid-2021, the initial economic recovery in the Santa Barbara metro area was slow, as disruptions to tourism and educational institutions proved detrimental to the local economy. Furthermore, a shift toward e-commerce, and away from brick-and-mortar stores, negatively affected local retailers. In the second half of 2021, the employment recovery accelerated as restrictions eased and students and employees returned to campus. As of November 2021, the total employment base in Santa Barbara was roughly 186,000 jobs, a decline from the 197,000 level before the pandemic. In fact, **only 65.9% of jobs lost in the Santa Barbara metro area during the downturn were recovered, lagging the nationwide recovery of 82.5%** through November 2021, though recovery varied significantly by sector. The recovery in the leisure and hospitality sector, which includes many of the tourism jobs in the region, as well as local restaurants and bars, was also middling, with only 65.5% of jobs recovered. Meanwhile, the recovery in **the professional and business services sector surged ahead, adding nearly three thousand new jobs since February 2020.** Notably, jobs in this sector are typically more easily performed remotely, and this sector benefited from a comparatively minor recession.

Going forward, in addition to the benefits from the return to campus, pent-up demand for travel and recreation should spur greater employment growth in Santa Barbara, outpacing the national average. However, the ongoing spread of COVID-19 variants continues to pose a considerable near-term risk, particularly as it relates to travel and tourism.

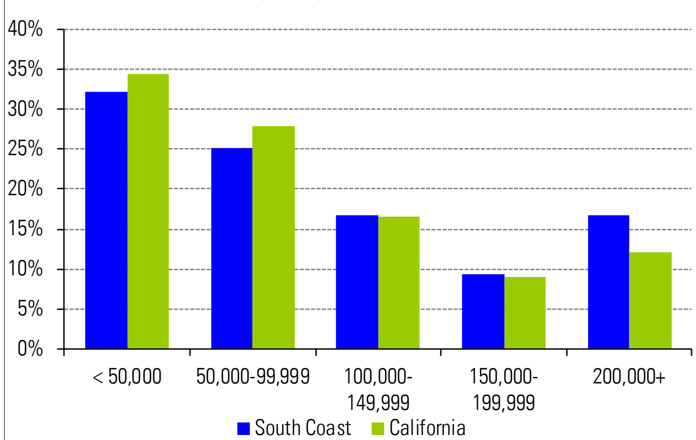
Labor Market Conditions

After peaking at 13.9% in April 2020, as the initial lockdowns sent shockwaves across the market and shuttered the tourism industry, the unemployment rate in the Santa Barbara metro area tightened steadily, but has yet to reach the pre-pandemic level. During the past several months, **the unemployment rate stabilized in the mid-5% range, compared with 3.8% in February 2020.** Notably, the improvement in the unemployment rate was partially attributed to the decline in the labor force participation rate, as many workers chose to remain out of the labor force owing to a range of factors including childcare needs, health concerns and early retirement. **In the Santa Barbara metro area, however, the effects of the pandemic on the labor force were less pronounced, relative to the national trend, as the large share of workers in high-wage, knowledge-economy jobs were more easily able to transition to remote work.** Across the nation, the labor force was 1.8% less than the pre-pandemic peak, compared with a labor force decline of 1.1% in the Santa Barbara metro area, as of October 2021, the latest data available at the market level. Labor force participation should improve—but not fully recover—during the coming months, as the vaccine authorization for children should alleviate childcare concerns for some workers. Looking ahead, the unemployment rate is expected to continue to decline as more jobs become available, especially in the leisure and hospitality sector; however, the return of some workers to the labor force is expected to keep the unemployment rate somewhat elevated above the pre-pandemic level for the next several years. As hiring continues and labor market conditions tighten, income growth is expected to bolster demand for housing in the region, even as affordability challenges remain a considerable hurdle.

Income Distribution

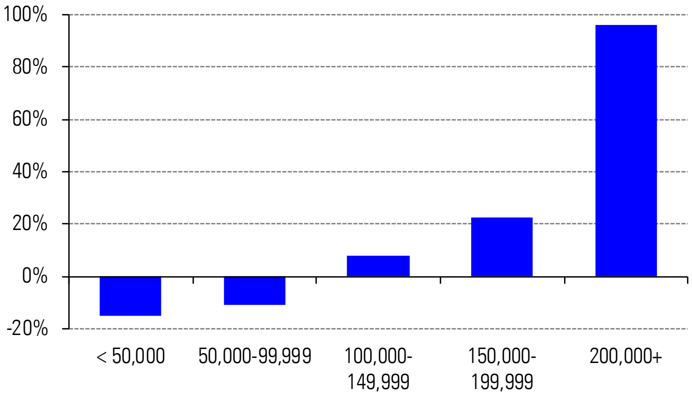
During the five-year period from 2014 through 2019 (the most recent data available), the median household income in the South Coast grew by 21.9%, or $14,600. Despite the trend of sustained income growth, **income inequality in the South Coast increased in recent years, as the concentration of high-income residents continued to grow, even as low- and moderate-income households could no longer afford to live in the region.** In fact, reflecting the sizable share of very high-income residents, the

Income Distribution (2019)



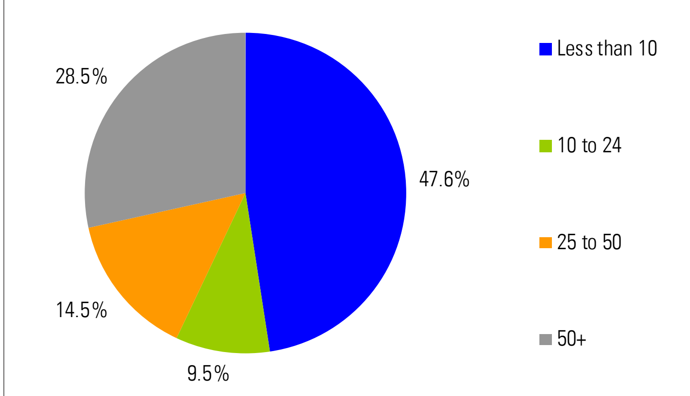
Sources: Census, RCG

Growth in South Coast Households by Income Bracket (2010-2019)



Sources: Census, RCG

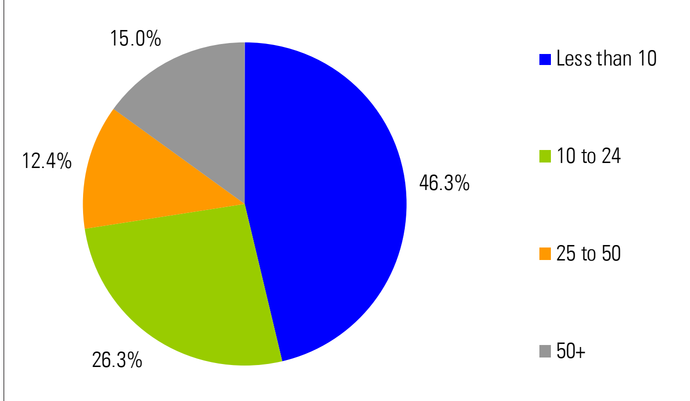
Distance Traveled by South Coast Commuters (Miles)



Sources: Census, BLS

average household income in the South Coast of more than $127,000 was approximately 57% greater than the median household income of approximately $81,000. In comparison, statewide the average household income exceeded the median by approximately 43%. In addition, while the share of earners in the highest income bracket ($200,000 or more) was more than one-third greater in the South Coast than the state average, there were also a substantial share of households in lower-income segments, including many of the service and retail workers who support the vital leisure and hospitality sector in the region. In addition, it is notable that a significant portion of the households in lower-income segments were college and graduate students, who, despite limited incomes, often have access to financial aid, student loans or family support to help cover housing expenses. However, **affordability challenges have made it increasingly difficult for the South Coast to attract and retain low- and moderate-income households, which includes workers in vital occupations, such as public safety, public health, and elementary and secondary education.** From 2010 to 2019, the share of households in the South Coast earning less than $50,000 per year fell by 14.9% percent, while households in the top income category nearly doubled, growing by 96.1%.

Distance Traveled by California Commuters (Miles)

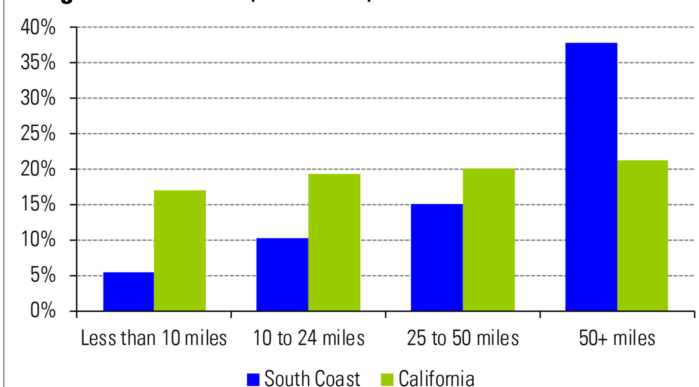


Sources: Census, BLS

Commuting Patterns

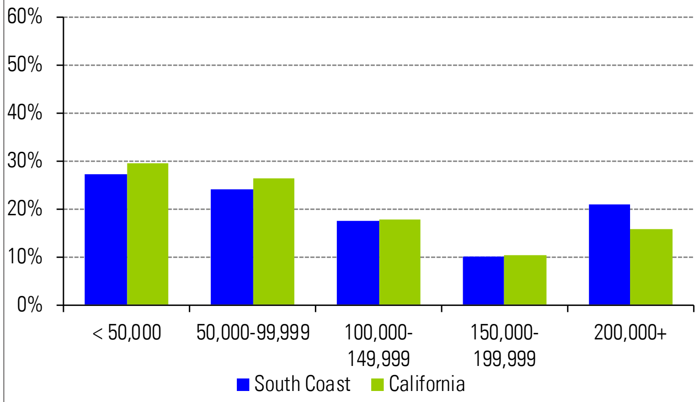
In response to rising housing costs, more workers were forced to take on longer commutes in recent years in order to access employment opportunities in the South Coast. Between 2010 and 2019 (the latest data available), the share of South Coast workers commuting more than 50 miles to work grew by nearly one-third, according to the Census and Bureau of Labor Statistics. **Compared with the statewide average, nearly twice the share of people employed in the South Coast drove more than 50 miles to work**, representing a total of approximately 31,300 workers, as of 2019. Not surprisingly, given the housing affordability challenges in the South Coast, **long commutes were especially concentrated among lower income workers.** In fact, among South Coast workers who

Change in Number of Workers Commuting by Length of Commute (2010-2019)



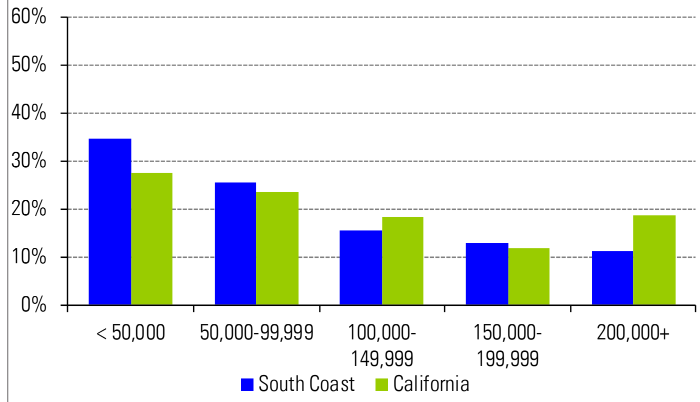
Sources: Census, BLS

Income Distribution Among White, Non-Hispanic Households (2019)



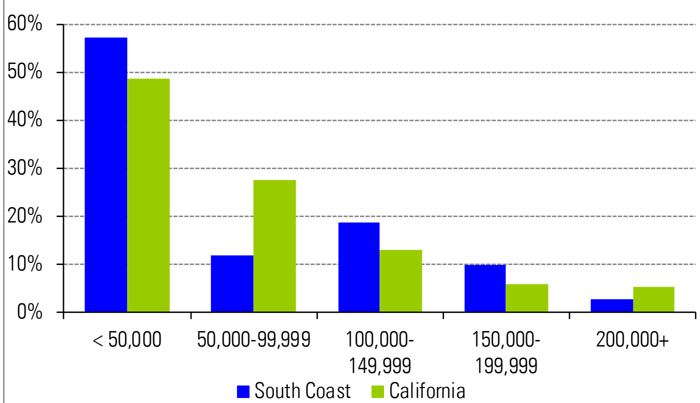
Sources: Census, RCG

Income Distribution Among Asian Households (2019)



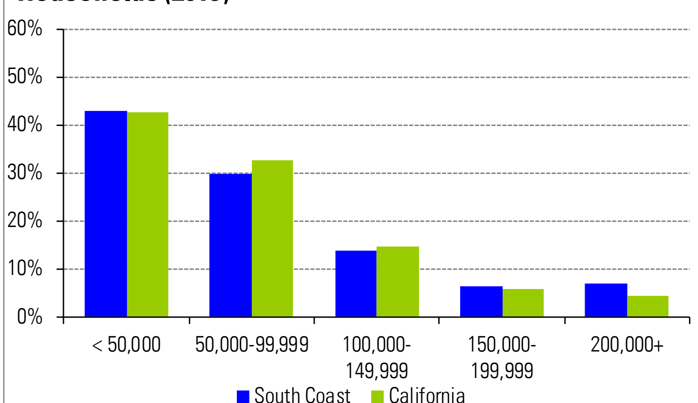
Sources: Census, RCG

Income Distribution Among Black Households (2019)



Sources: Census, RCG

Income Distribution Among Hispanic Households (2019)



Sources: Census, RCG

earned between $15,000 and $40,000 per year, the share who were able to live in the South Coast declined by 9.3%, or nearly 1,700 workers, from 2010 through 2019.

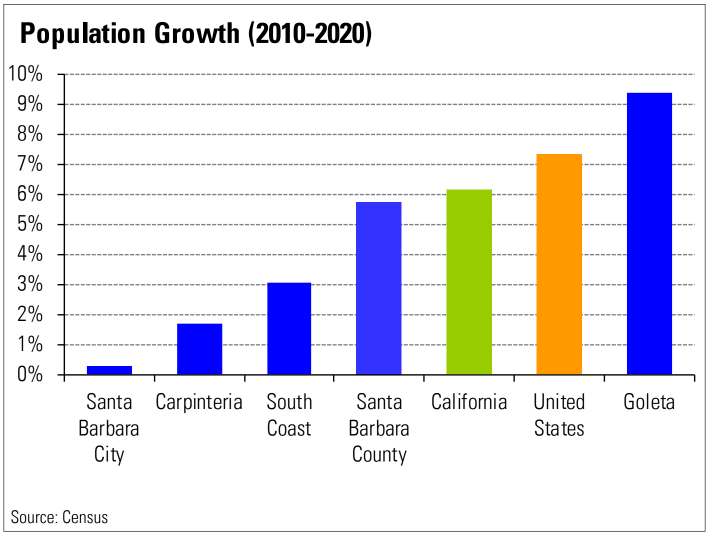
Even before the recent pandemic-induced surge in housing costs and decline in labor force participation, the lack of affordable housing posed a significant challenge for South Coast employers, who already had considerable difficulty finding and retaining local talent. In fact, **more than three-quarters of jobs added in the South Coast from 2010 through 2019 were filled by people living outside the region.** This trend held constant across all age groups—while older adults were more likely to occupy higher-paying jobs, they were also more likely to value homeownership and subsequently choose to live further from the South Coast's prohibitively expensive housing market. Reflecting the disproportionate concentration of households in lower income categories, compared with the state average, an outsized share of the workers who endure these lengthy commutes likely represent people of color. However, it is worth noting that many of the workers commuting long distances live outside of the South Coast geographies and would therefore not be included in the local demographic and income data.

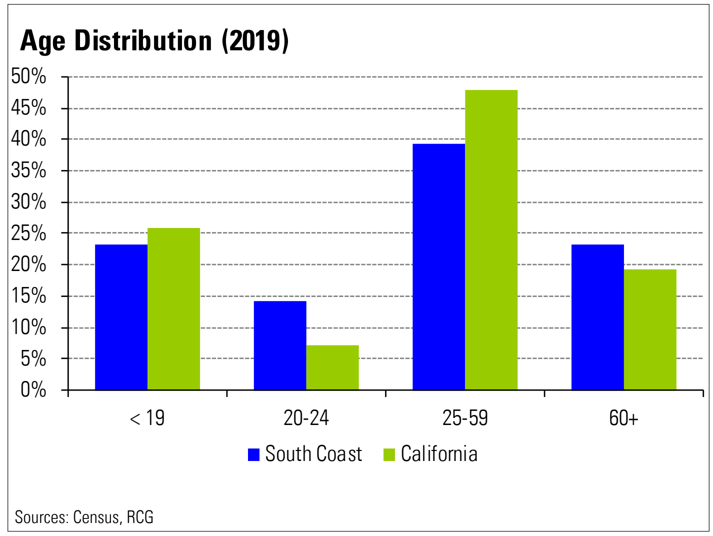
Demographic Characteristics

Population Overview

Despite the appealing job opportunities and lifestyle amenities in the South Coast, demographic trends remained weak compared with the state and national average. Within Santa Barbara County, population growth in most cities fell far behind the state average. **Across the South Coast, population growth was limited to 3.1% from 2010 through 2020, compared with 6.1% in California and 7.4% in the United States, during the same period.**

After several years of positive in-migration, migration levels in the metro area began to decline in 2015, before turning negative in 2017,





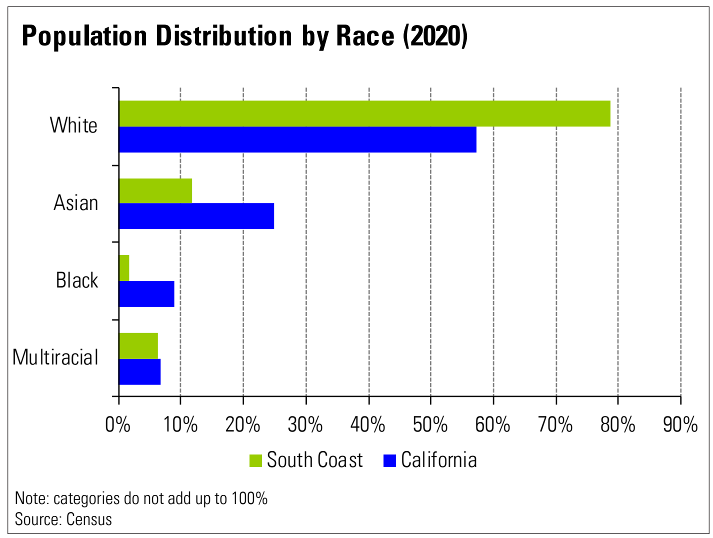
leading population growth to stagnate in recent years. Migration deteriorated further during the pandemic. While there were likely some new residents moving to the area because of the desirable coastal lifestyle, on balance, out-migration increased as remote work gave many South Coast workers the flexibility to relocate to more affordable markets.

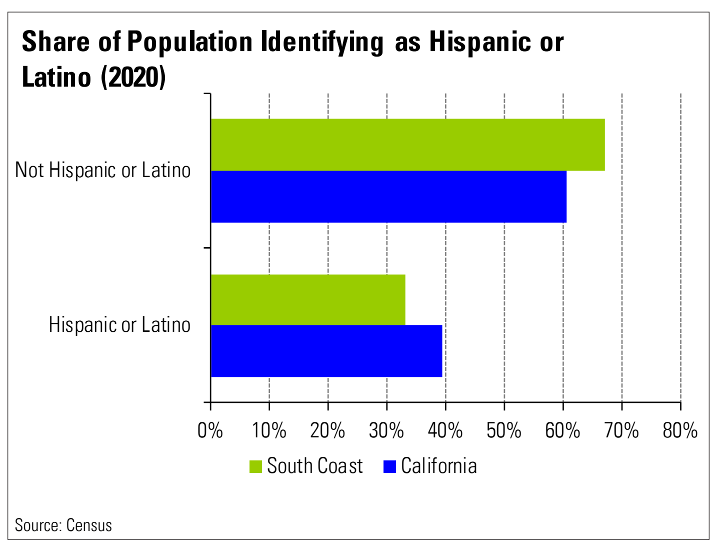
Population by Age

As housing costs increased, the prospect of raising in a child in the South Coast was prohibitively expensive for many households in recent years, especially low- and moderate-income households. Indeed, compared with the state average, children 19 years old and younger make up a smaller share of the South Coast population. Furthermore, while the population in the 20 to 24-year old and 60 or more year-old age categories in the South Coast are disproportionately large—largely reflecting the sizable group of college students and retirees—**the share of prime working-age adults (aged 25 to 59 years) in the South Coast was only 39.3%, much less than the state average of 47.8%.** In addition to the social and cultural effects of this age distribution, this also poses a considerable problem for employers, in terms of recruiting workers beyond entry-level positions. This pre-existing trend was exacerbated by the pandemic, as the drop in labor force participation further reduced the existing pool of workers in the area. Moreover, the rise of remote work, paired with rapid acceleration in housing costs, pushed many workers into more affordable markets elsewhere. Notably, **the lack of prime working-age residents living in the South Coast limits economic activity**, through spending and tax revenue, **and may limit the economic competitiveness of the region in terms of attracting new employers and retaining growing businesses.**

Race and Ethnicity

In terms of diversity, equity and inclusion, the South Coast significantly lags behind the rest of the state. As of 2020, 78%





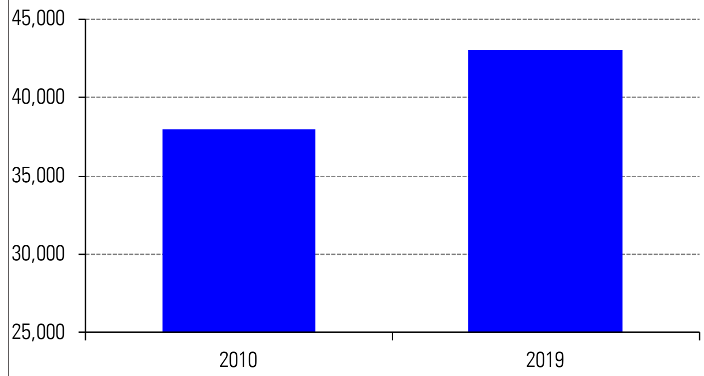
of South Coast residents identified themselves as "white alone," compared with 57.2% statewide. Indeed, across the South Coast, Asian, Black, Hispanic, and multiracial residents were underrepresented, compared with the California state averages. (Notably, however, while the share of South Coast residents identifying as "white alone" increased modestly during the past decade, the share of residents identifying as Hispanic remained stable during the same time period.) Consistent with the data highlighted previously on incomes and the more detailed discussion on affordability later in this report, **households of color disproportionately face barriers related to the limited availability of affordable housing, including cost burdens, financial instability, long commutes, and numerous hurdles in terms of achieving homeownership.** In turn, this lack of diversity negatively affects the cultural and social vitality of the region, which could negatively impact overall regional prosperity going forward.

Student Population

As of 2021, approximately 22,500 full-time undergraduate students, and nearly 3,000 full-time graduate students, were enrolled at UCSB. Though growth among the graduate student population remained relatively flat during the past decade, the full-time undergraduate student population grew by approximately 30% since 2010. Based on pre-pandemic data, approximately 14,200 students were enrolled in classes at City College, as of Fall 2019, nearly 10,000 of whom were at the main campus (as opposed to dual-enrollment high school students, or exclusively-online students).

The total student population in the South Coast in 2019 was nearly 43,000, representing almost one-quarter of the total adult population. Students are a major source of housing demand, especially for smaller and lower-cost rental units. While virtually all UCSB freshmen lived on-campus, during the 2019-2020 academic year, only 38% of students were housed on-campus, according to the annual UCSB Campus Profile report. (During the 2020-2021 academic year, residence halls were closed, owing to the pandemic.) Among the approximately 16,000 students who did not live on-campus, 34% lived in Isla Vista, 10% in Santa Barbara, and 7% in Goleta. An additional 7% of students lived in "other locations" in Santa Barbara and Ventura County, 3% were studying abroad, and the addresses of the last 1% were unknown. While City College does not officially own any student housing, a privately-owned company, Tropicana Del Norte in Isla Vista, offers dorm-style living in a setting similar to a traditional residence hall, exclusively for City College students. As discussed later in this report, the limited availability of dormitory space, certainly adds to the strain on the local housing market, particularly the market for smaller and relatively affordable rental units.

Population Enrolled in College or Graduate School in the South Coast (2019)



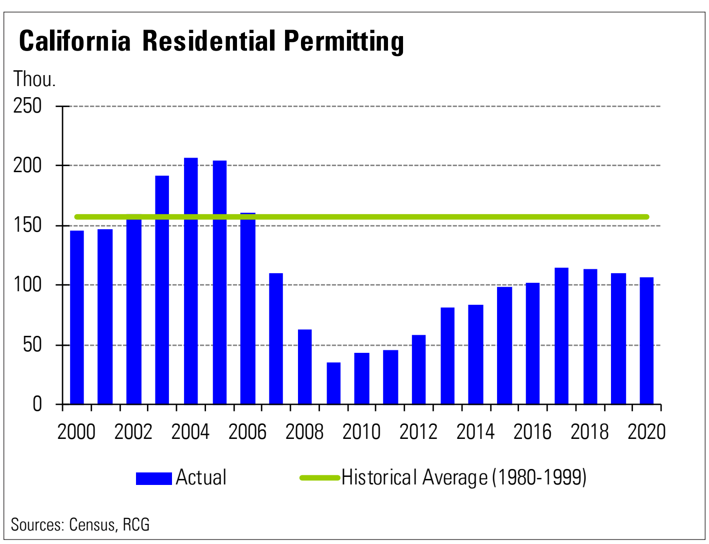
Source: Census

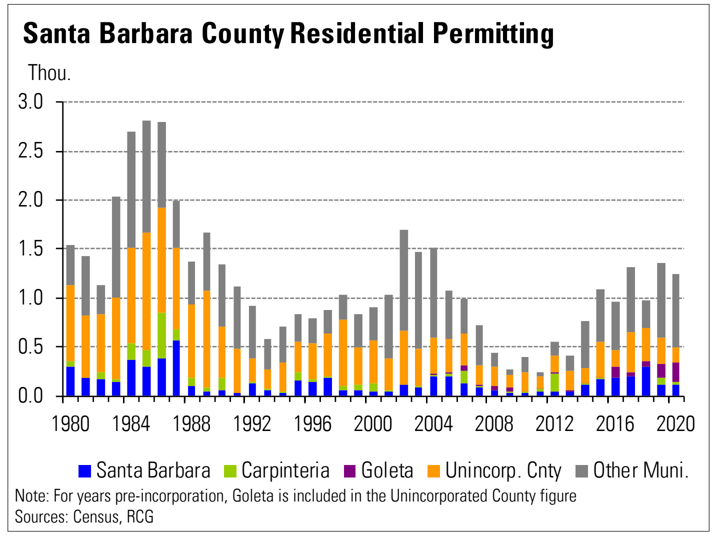
IV. Housing Supply: Underbuilding and Lack of Available Housing

Household formation and population growth in the South Coast slowed significantly in recent decades, a trend that largely reflected the underlying lack of housing development during the past four decades. **Without housing units to move into, new residents were not able to move to South Coast communities, and current residents could not form new households or find homes to expand households.** The lack of housing production led to a rapidly aging housing stock, and was a major factor contributing to the precipitous increase in housing costs, for both renters and owners. This section will provide context on the scale of underbuilding by examining a range of different ways to measure the housing shortage in the South Coast and detailing the resulting outcomes including the aging of the local housing stock, the nuances of South Coast vacancies, and the negative impacts on housing costs and affordability.

Severe Underproduction of Housing

Housing production in South Coast slowed dramatically in the last four decades, even when compared with broader declines in housing production across the County and the state. Across California, housing production in many regions declined from 1980 to 1999, and then declined even further in the 2000's and 2010's. In fact, annual average residential permitting in California from 2000 to 2020 was 28.1% less than the period from 1980 to 1999, and nearly 45% less than the period from 1960 to 1979 according to data from the Census and HUD. **This decline in housing production was even more acute in Santa Barbara County, as annual average permitting from 2000 to 2020 decreased by 37.5% compared with 1980 to 1999**, the earliest available history from the Census. The declines in Santa Barbara, Goleta & the unincorporated portions of the County, and Carpinteria (collectively the "Greater South Coast") were 33.8%, 50.5% and 59.8%, respectively. Note that, since Goleta was incorporated in 2002, local residential permitting data was





unavailable across several sources prior to that year, and for this reason, permitting data for Goleta was merged with unincorporated communities in Santa Barbara County. While this creates a more complete historical series and provides a reasonable proxy for the trends across the South Coast region, the numbers would tend to somewhat overstate the actual level of construction within the South Coast.

The large decline in housing production in the South Coast was tied to numerous factors including a range of local housing policies and a rapid increase in the costs of producing housing. The increase in housing costs, in particular, can be attributed to several factors, such as local regulatory regimes, labor shortages and increasing material costs, as well as ballooning land costs due to geographical scarcity and strong demand, as discussed in detail in the section on barriers to development below. The net result, however, was clear. **Housing production in communities across the South Coast slowed dramatically during the past two decades**, failing to keep pace with the historical trend of construction locally, underperforming other parts of the state and creating a significant housing shortfall. This shortfall in housing production is observable at all jurisdictional levels, from the county to cities.

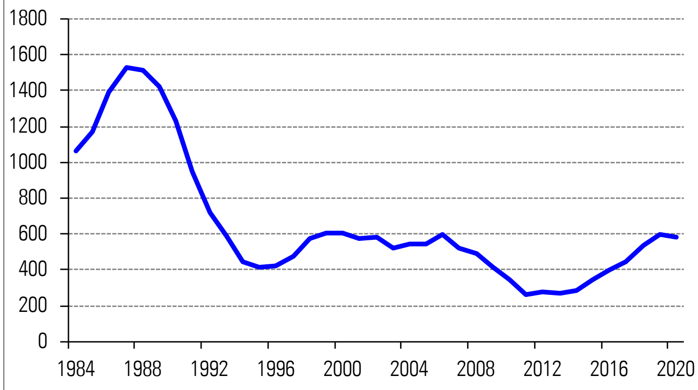
Permitting Shortfall vs. Historical Average

In order to capture this trend, RCG first measured the regional housing shortfall by comparing more recent annual average permitting activity (2000-2020), capturing two economic cycles in the past two decades, with the historical average pace of permitting during the prior two decades (1980-1999), which also roughly captured the prior two economic cycles. While far from perfect, this method provides a straightforward and easy to understand means by which to measure housing production over time, particularly in a region where the lack of housing production was such a major limiting factor on demographic growth that traditional supply-demand comparisons are of little-to-no value. Importantly, however, it is necessary to clarify that this method does not directly account for shifts in demand-side factors, either in the historical or more recent periods. Perhaps somewhat more problematic, housing production was undoubtedly already depressed during much of the earlier historical reference period (1980-1999) for some South Coast communities. Unfortunately, however, detailed local permitting statistics, obtained from the Census and HUD, are not available prior to 1980. On balance, these factors would generally be expected to make this measure of housing underproduction for the South Coasts a very conservative estimate. Yet, regardless of these considerations, it is clear that permitting activity was still significantly slower in all South Coast communities in the last twenty years compared with the historical average from 1980 to 1999.

At the county level, an average of nearly 1,430 residential housing permits (local authorization to start building) were issued annually from 1980 to 1999, across all types of housing units including single family and multifamily housing, according to the Census. When this historical average level of permitting is compared with the annual residential permits issued from 2000 to 2020 of 890 units, a substantial shortfall emerges. Specifically, relative to the historical trend**, the cumulative underbuilding in Santa Barbara County totaled approximately 11,200 housing units** (including both multifamily and single family) from 2000 to 2020, when compared with the historical average from 1980 to 1999.

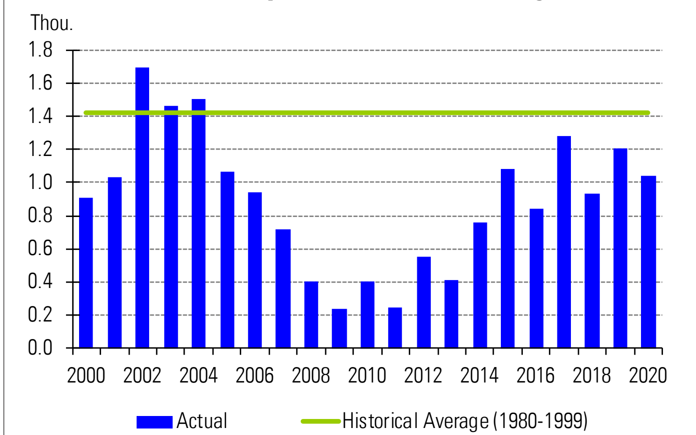
In the Greater South Coast, the housing shortfall was most significant for the combined Goleta & Unincorporated County area, the largest geography among the three available permitting jurisdictions, at 6,700 units, with much of this necessarily reflecting communities outside of the current Goleta city boundaries. By the same conservative measure, the cumulatively housing shortfalls during the last twenty years totaled 1,200 units and 1,000 units in the cities of Santa Barbara and Carpinteria, respectively. In aggregate, **the shortfall in housing production for the Greater South Coast from 2000 to 2020 totaled 8,900 housing units**, when compared with the historical average. Filling the gap would require an extended period of building at a pace in excess of the historical average. In

South Coast 5-Year Avg. Residential Permitting



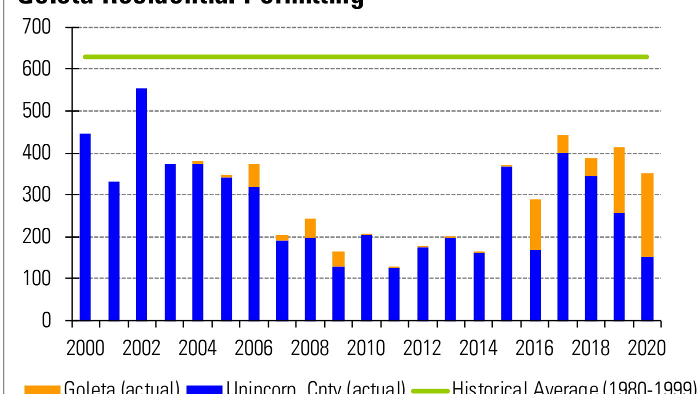
Sources: Census, RCG

Santa Barbara County Residential Permitting



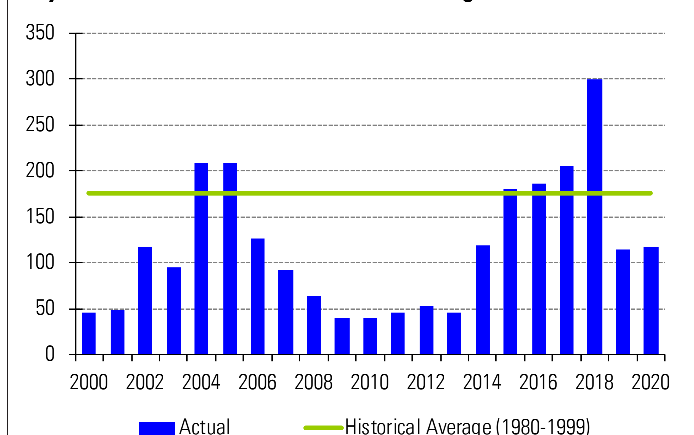
Sources: Census, RCG

Unincorp. Santa Barbara County & Goleta Residential Permitting



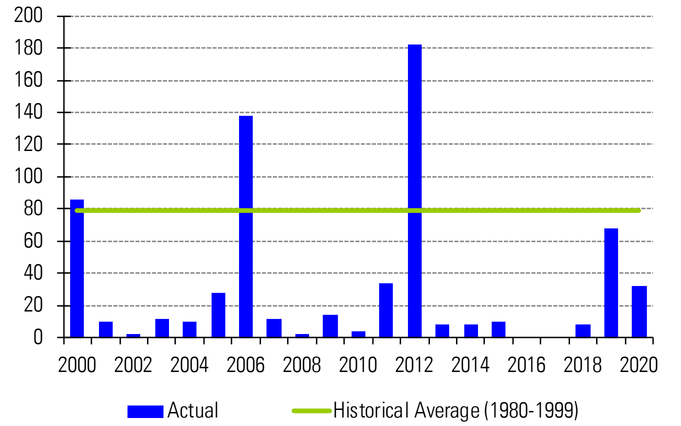
Note: For years pre-incorporation, Goleta is included in the Unincorporated County figure
Sources: Census, RCG

City of Santa BarbaraResidential Permitting



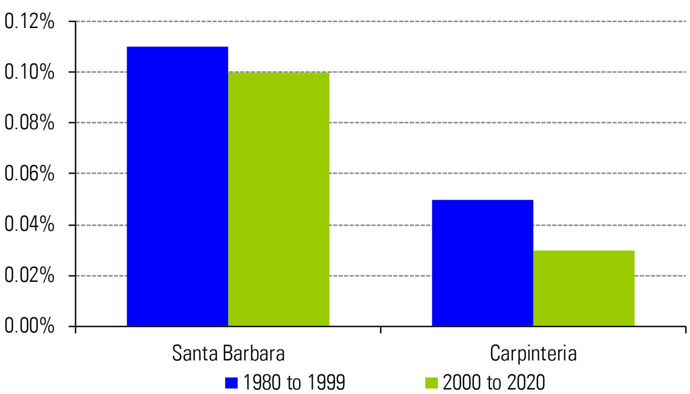
Sources: Census, RCG

Carpinteria Residential Permitting



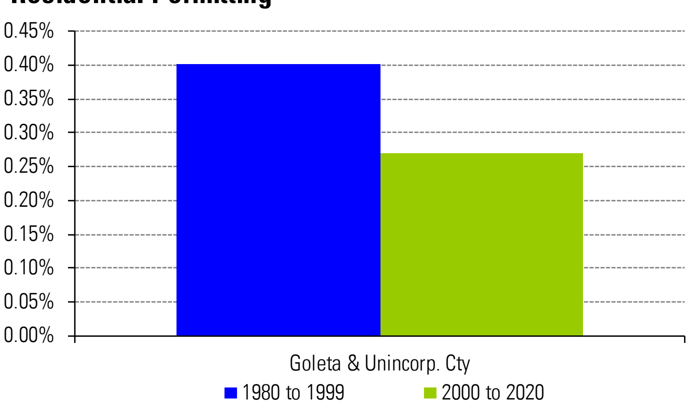
Sources: Census, RCG

South Coast Jurisdiction Share of Statewide Residential Permitting



Sources: Census, RCG

South Coast Jurisdiction Share of Statewide Residential Permitting



Sources: Census, RCG

fact, **if the Greater South Coast permitted at double the pace of recent years (permits averaged 580 units annually from 2016 through 2020), it would take more than 15 years to fill this housing shortfall.**

Relative to Statewide Housing Production

In addition to the shortfall in housing production compared with the historical average, permitting activity in Santa Barbara County and the Greater South Coast did not keep pace with the historical average share of statewide permitting. RCG examined this metric to better standardize limitations affecting California communities, such as increasing material, labor and land costs, as well as the statewide regulatory environment, while still providing a straightforward measure for the underproduction of housing in the South Coast. However, the decline in residential permitting activity statewide, as well as depressed local development activity in a large portion of the historical period (1980-1999), make this an even more conservative measure of the shortage of housing production at the county level and for the South Coast.

Still, the comparison with state permitting does provide insightful context. Even while housing production across the state slowed dramatically during the last two decades, production slowed even more significantly in the South Coast. From 1980 to 1999, residential permitting in Santa Barbara County accounted for 0.9% of all residential permits issued statewide, according to the Census. If this share of state permitting remained constant through 2000 to 2020, countywide residential permitting would have totaled approximately 21,500 housing units, compared with the actual total of slightly more than 18,700 units produced, a shortfall of 2,800 units, even under this extremely conservative measure of underbuilding. By this measure**, the shortfall for the Greater South Coast was even greater than the county-wide total, at 3,700 housing units**. Moreover, no South Coast Jurisdiction managed to even keep pace with the reduced pace of residential permitting statewide, a fact that further exacerbated the housing shortage and affordability crisis in the South Coast.

Regional Housing Needs Assessment

Beyond these broader estimates, the California Department of Housing and Community Development (HCD) also reiterated the undersupply of housing in the South Coast in the most recent Regional Housing Needs Assessment (RHNA). Specifically, HCD requires that local jurisdictions, both cities and counties, must zone to accommodate a prescribed number of new residential units, determined via data provided by other state agencies. This figure constitutes the Regional Housing Need Determination, which is then allocated to local jurisdictions by the Santa Barbara County Association of Governments (SBCAG). The most current cycle, the 6th cycle, covers residential zoning requirements for the period from 2023 to 2031.

RHNA 6th Cycle South Coast Housing Allocations (2023-2031)

Geography	Allocation by Income Category (Median HH Income) <50%	50% to 80%	80% to 120%	120%+	Total	Share of County
Carpinteria	286	132	135	348	895	3.6%
Santa Barbara	2,147	1,381	1,441	3,032	8,004	32.2%
Goleta	682	324	370	461	1,839	7.4%
S. Coast Unincorp. Cty.	809	957	1,051	1,325	4,151	16.7%
South Coast	**3,924**	**2,794**	**2,997**	**5,166**	**14,889**	**59.9%**
Santa Barbara County	10,725	5,799	3,935	4,397	24,856	n/a

Note: The countywide median household income was $74,624 as of 2019

Source: SBCAG

HCD determined that Santa Barbara County needs to plan for allowing nearly 24,900 new housing units to be built during the cycle period, in order to sufficiently account for anticipated housing demand, current overcrowding, housing cost burdens and the existing tight supply of housing resulting from historical underproduction. The new RNHA figure represented an increase of more than 160% from the prior 5th cycle planning period (2014 to 2021) allocation of 11,030 units, further emphasizing the fact that the region continued to underproduce housing in recent years and that the magnitude of the cumulative undersupply challenge in the County is very large. In fact, during the 5th RHNA cycle from 2014-2020, the South Coast region delivered only 318 units for low-income households and 249 units for very low-income households, falling short of RHNA allocations by approximately one third. In the City of Santa Barbara, the shortfall was especially severe–only 84 low-income and 124 very low-income units were delivered, with attainment rates of 12.5% and 12.0%, respectively.

In the new RHNA cycle, **the South Coast region, specifically, was allocated nearly 60% of the countywide RHNA target, or 14,800 units**, according to SBCAG. While aggressive, this figure provides an ambitious goal that, if achieved, could represent significant progress toward alleviating some of the affordability challenges in the region. Of the total RHNA allocated units, 6,700 units, or 45%, were allocated for very low- or low-income households (80% or less of county median household income). In Santa Barbara County, 80% of the median household income was $59,700 as of 2019, that latest year of available data from the Census. The cost burden on these income groups, and the pressure to find more affordable housing, was particularly evident during the past decade, as **the number of households earning $60,000 or less in the three South Coast incorporated cities declined by nearly 15%**, a greater decrease than statewide, according to the Census. SBCAG also allocated a significant share of the needed housing units in the above moderate-income category (120% or more of county median household income), or those making $89,500 or more, as this category accounted for 34.7% of the South Coast housing allocation. The large share of needed housing units allocated to the above moderate-income group exemplified the need for new housing development of all kinds in the South Coast, including subsidized, affordable units, middle income and workforce units, as well as market-rate units.

Jobs-Housing Imbalance

The final measure RCG used to capture the scale of the shortfall in housing production in the South Coast was the ratio of jobs added to housing units permitted. Despite the underproduction of housing, and subsequent lack of population growth, the South Coast continued to add a significant number of jobs in recent years. This was particularly evident in the most recent pre-pandemic growth cycle. Indeed, examining the period after jobs were fully recovered from the Great Recession (starting in 2013) through the end of 2019 (pre-Pandemic), the number of people working jobs in the three primary South Coast municipalities (a rough measure of South Coast jobs) increased by approximately 6,500 workers, but these cities only permitted 1,500 housing units, according to the Census and BLS. Therefore, **South Coast cities added more than 4.3 jobs for each new housing unit permitted** during this period, a highly unsustainable rate that roughly compared with four jobs per unit at the county level, and 3.8 jobs per unit statewide, during the same period. This ratio was even larger in the City of Santa Barbara, which added the largest share of employed workers during this period, at 4.6 per unit permitted. For reference, the national average during this time period was two jobs per housing unit. It should be noted that in this comparison, the ratio for South Coast cities is a conservative estimate, as the measure only counts people that work jobs in the South Coast region, regardless of where they live, while the other geographies capture total payrolls, which can include situations such as earners with two jobs. Based on the conservative assumption of two-income earners per household, a ratio of two jobs per housing unit would be considered a much more reasonable pace of development to achieve an equilibrium level of housing production (i.e. the demand-supply

Pre-Pandemic Jobs-Housing Imbalance (2013-2019)

Geography	Jobs Added (thou.)	Housing Permits Issued (thou.)	Jobs Added Per Permit
California	2,653.6	703.4	3.8
Santa Barbara County	26.1	6.5	4.0
South Coast Cities	6.5	1.5	4.3
Santa Barbara	5.3	1.2	4.6

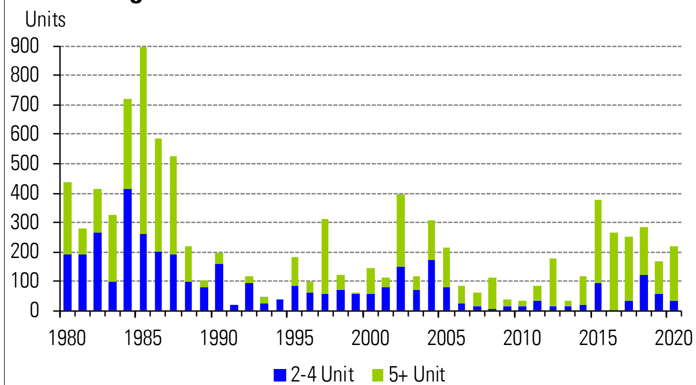
Sources: Census, BLS, RCG

balance that would maintain a status quo in the housing market without significantly improving or reducing local affordability). Instead, the imbalance in housing production and job growth in the South Coast put significant pressure on the limited inventory of available housing, and contributed to considerable upward pressure on the cost of housing, while also forcing an increased number of local workers to live outside of the region, as shown in the commuting patterns data presented earlier in this report.

Shortfall of Two- to Four-Unit Structures

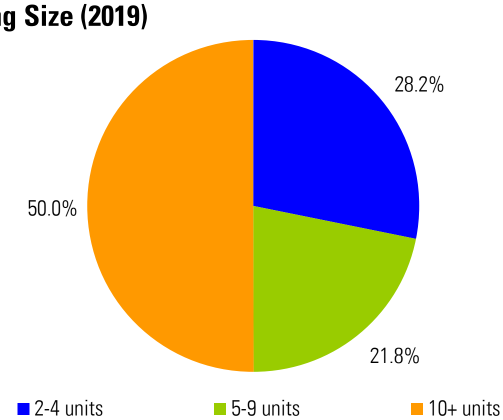
Amid the broader shortfall in housing production in the South Coast region, the permitting of two- to four-unit multifamily residences was especially lacking in recent years. These properties, which include "mom and pop" properties, townhouses, duplexes and small apartment buildings, are sometimes referred to as the "missing-middle" of housing supply. Typically more affordable, 2-4 unit buildings are often managed directly by the owner, while larger, more capital-intensive buildings are likely to be professionally managed. From 2000 to 2019, the Greater South Coast permitted an average of 54 units in two- to four-unit structures per year, compared with the historical annual average of 132 units from 1980 to 1999, according to the Census. In particular, in the City of Santa Barbara, where most of the units in two- to four-unit structures were permitted historically, the number of permits issued for these types of units declined by 63% in the period from 2000 to 2019 period, compared with the historical period from 1980 to 1999. While geographic and land acquisition constraints do create significant hurdles for building new single family home subdivisions, and can limit the potential for large multifamily developments in the region, **the precipitous decline in permitting for units in two- to four-unit structures, which are strong candidates for in-fill and lot-splitting projects, is particularly problematic**, and provides a potential area of focus going forward. As of 2019, 2-4 unit buildings made up 28% of the multifamily housing stock in the South Coast, while 5-9 unit buildings and 10+ unit buildings comprised 22% and 50% of the housing stock, respectively.

South Coast Jurisdictions Multifamily Housing Permitting

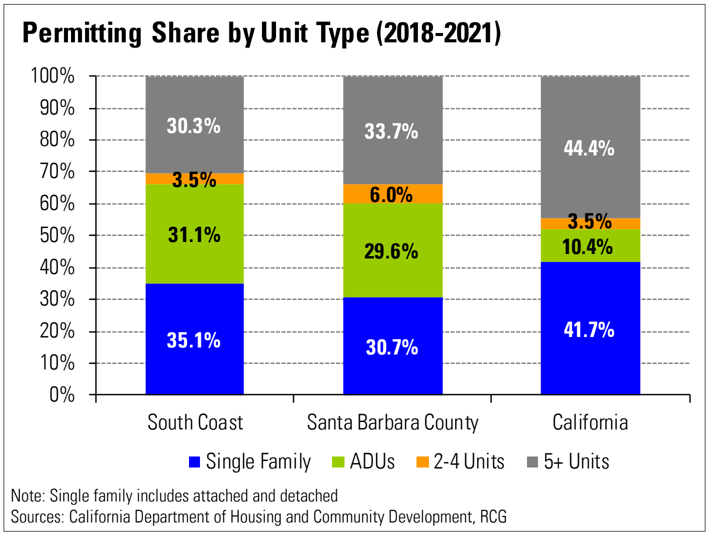


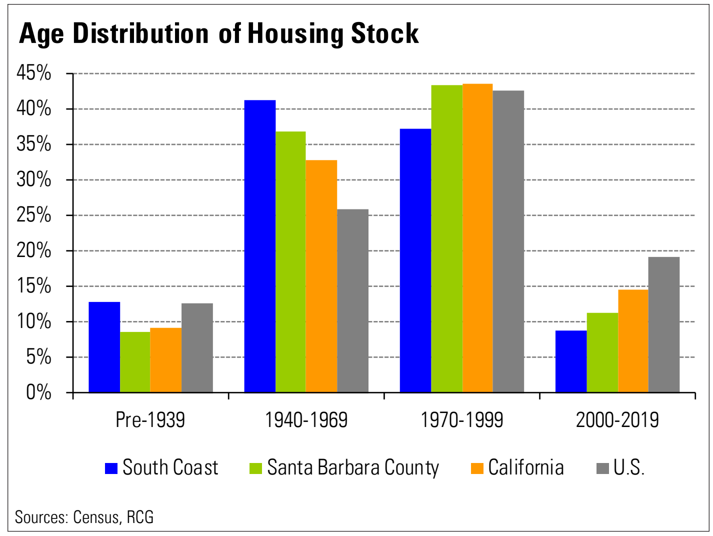
Sources: Census, RCG

South Coast Multifamily Housing Stock by Building Size (2019)



Sources: BLS, RCG





A Severe Underproduction of Housing, By Any Measure

Across all of these metrics, Santa Barbara County, and the South Coast in particular, did not produce enough housing during the past two decades. Additionally, many of these measures were affected by data limitations, which made it difficult to capture the likely underbuilding that also took place from 1980 to 1999. As a result, **RCG considers most of these measures of the shortfall in housing production in the South Coast to be highly conservative estimates** of the historical underbuilding, a factor that stands out in comparison with the RHNA housing unit allocation, which provides a more ambitious goal for local jurisdictions to account for past underbuilding and future growth needs.

Accessory Dwelling Units: Early Progress

Following the passage of legislation at the state level, including AB 68 (2019), which required local jurisdictions to streamline the development of Accessory Dwelling Units (ADUs), ADU permitting in the South Coast accelerated dramatically. In fact, from 2018 to 2021, the 590 permitted ADUs accounted for approximately one-third of all units permitted in the Greater South Coast, which was nearly three times greater than the state average, according to state data. It is notable, however, that in some instances, local ordinances may have formalized existing ADU structures. While the progress is still early, and there is much room for further streamlining and greater ADU development, the increased number of ADUs in recent years highlights the potential benefits of development incentives, streamlining approvals and expedited permitting as means to produce more housing in the South Coast. Further steps could significantly increase future ADU production. Specifically, local jurisdictions in the South Coast could establish pre-approved ADU designs to minimize design costs and the need for a longer review. Additionally, while incentivizing ADU development can help relieve some pressure on the local housing crisis, to make significant progress towards improving affordability and housing access, more drastic measures will be necessary to increase the supply of housing. As the nearby chart shows, while ADU permitting in the South Coast was indeed elevated, multifamily permitting in the South Coast, 34% of all permits, was significantly lower than the State share, at 48% of all permits.

Rent Control

While rent control is often proposed as a method to combat declining affordability, over time, rent control reduces housing supply and impedes new development, adding further strain to local housing markets. As highlighted in RCG's 2018 report, *The Case for Preserving Costa-Hawkins: Three Ways Rent Control Reduces the Supply of Rental Housing*, published by the UC Berkeley Fisher Center for Real Estate and Urban Economics, "rent control ordinances reduce rental supply in several important ways: 1) Rent control incentivizes property owners to convert rental units to other uses, such as for-sale housing units or non-residential buildings; 2) Rent control reduces the effective supply of available rental units through an inefficient allocation of housing; and 3) Rent control limits the creation of new rental supply by discouraging development activity, especially without guaranteed exemptions for new properties and assurances that property owners can adjust rents to market level upon tenant vacancies. All of these factors combine to decrease the supply of rental housing in markets with rent control, which ultimately lowers apartment availability and raises rents."

Lack of Available Housing

Broadly, the lack of housing production in Santa Barbara County and the South Coast had wide ranging effects on the local housing stock and housing market. Additional nuances in the local supply of housing, such as the outsized role of vacation rentals, and the sizable student population, added further pressures on available housing, housing costs and affordability.

Aging of the Housing Stock

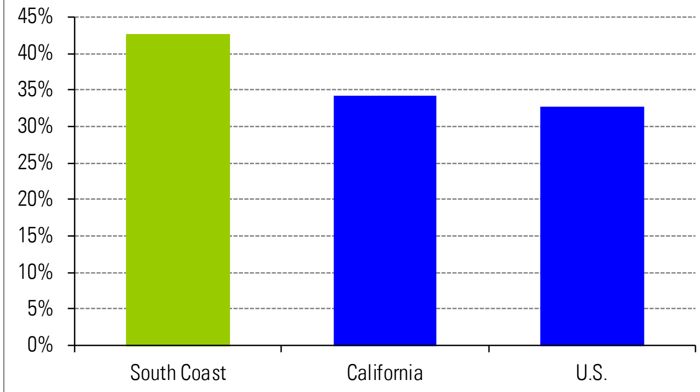
As a result of the decades of underbuilding, **the age distribution of the local housing stock is significantly older than the rest of the state and the country.** In fact, the share of the total housing stock built in the South Coast from 2000 to 2019 was less than half of the national average, and less than one-third of the corresponding statewide share, according to the Census. Conversely, 54% of the South Coast housing stock was built prior to 1970, compared with 42% statewide and only 38% nationally. In fact**, a full one-third of the total South Coast housing stock was built between the start of the Second World War (1939) and when Alaska and Hawaii became the 49th and 50th states** (1959). While it is essential to note the importance of preserving the unique architectural character of the South Coast, the large share of homes built more than 50 or even 60 years ago, poses considerable risks. Primarily, the aging stock translates to a deterioration in building quality over time, which can result in increased maintenance costs, and make it more likely that units deteriorate to the point of becoming functionally obsolescent—further reducing available housing and adding to the need for new housing production. Additionally, older structures may be at increased risk from damage from earthquakes and landslides, especially if capital investments have been deferred.

The age of the housing stock also highlights another broader issue, which is the lack of 'filtering' of housing units over time. Filtering generally refers to the process by which newly built housing units become more affordable over time as these units age, and is a well-documented, and necessary, facet of a healthy housing market. The lack of development in the last two decades in the South Coast limited the number of units that could filter down, and become more affordable over time. Instead, the market now consists of much older units and single family homes, and a limited number of very high-priced new developments, with little in between. This poses a significant hurdle for moderate-income households, many of whom would traditionally occupy units in somewhat older and more affordable properties.

Lack of Available Space

Some may argue that the region lacks more physical space (land or developable lots), and therefore it should not be expected that the Greater South Coast would continue to build new housing at the historical pace. While this argument is reasonable, the statement does not fully recognize the extent to which available space is only a single limiting factor (see detailed discussion of the numerous barriers to new development in the region), and can be mitigated in numerous ways including through increased density, upzoning of low-density lots, lot-splitting and further expansion of accessory dwelling unit (ADU) policies. As emphasized previously, permitting of multifamily units, even relatively low-density two- to four-unit structures, was extremely limited.

Seonally Vacant Share of All Vacant Units (2019)



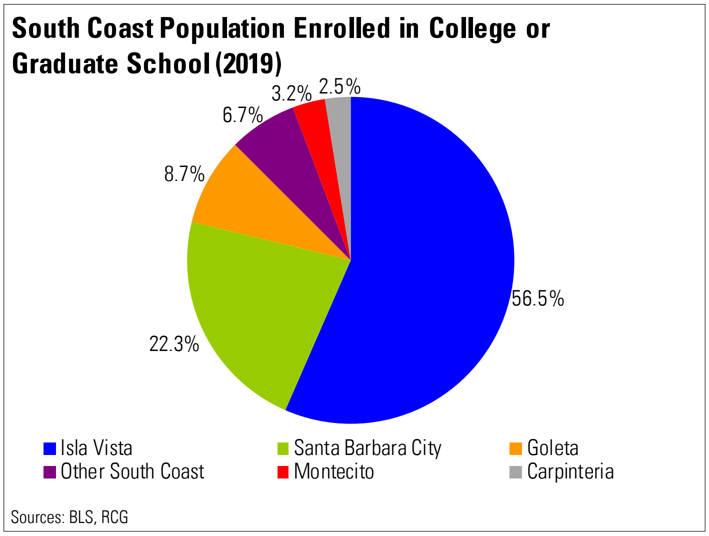
Sources: Census, RCG

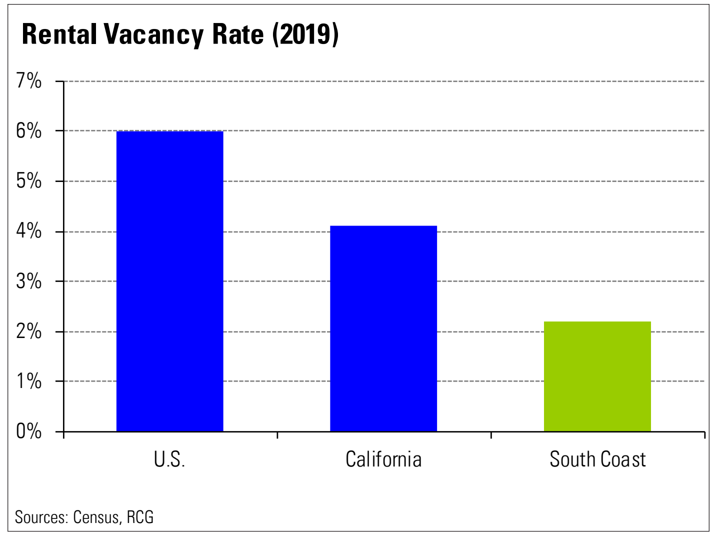
Seasonal Rentals and Vacation Homes

Santa Barbara is famous for beautiful beaches and unique historical and cultural landmarks and architecture. As a result, the local economy is fueled in part by significant amounts of tourism, leading to an elevated number of seasonally vacant homes and vacation rental homes and condominiums. This fact has added further pressure to the limited availability of housing in the South Coast for many years. Yet, despite technological shifts in the nature of vacation rentals, **the large share of seasonal and vacation homes in the region is a long-standing factor, and while not insignificant, is certainly far from a leading factor influencing the shortage of available and affordable housing in the South Coast**. Seasonal and vacation homes are often either vacant for part of the year or occupied temporarily by tourists. In the South Coast, more than 3,200 units, or nearly 43% of the 7,600 total vacant units, were seasonal, recreational or occasional use units as of 2019, compared with 34% statewide and 33% nationally, according to the Census. The high proportion of vacation rentals and seasonally vacant homes, while generally to be expected, adds nuance to the affordability crisis unfolding in the South Coast. Indeed, the job and economic benefits for the region of the tourism industry are large and, undoubtedly, important to local communities and the regional economy. Additionally, property taxes paid on seasonal rentals and vacation homes are an important source of revenue for local government authorities.

Student Housing

While UCSB, City College and other educational institutions are major drivers of the local economy, the lack of dorm development contributed to overcrowding in parts of the region, and further exacerbated the limited availability of housing in the South Coast. As of 2021, **nearly 26,200 students were enrolled at UCSB**, according to the university. While this includes students who may not physically be on campus, this figure exceeded the 25,000 enrollment cap outlined in the Long Range Development Plan (LRDP) from





2010. As part of the LRDP, the university also planned to construct 5,000 units of student housing from 2010 to 2025. However, a recent report by the Sustainable University Now (SUN) activist organization estimated that UCSB built only 1,500 new student housing units. However, the University, "is not in agreement with the assertions contained in the SUN letter," according to a UCSB spokesperson quoted in the Santa Barbara Independent. Adding additional strain to the local housing market, City College, one of the highest-ranked community colleges in California, draws students from across the County, and in some cases, the state. Both of these institutions help contribute to a high rate of educational attainment in the South Coast, and further boost local economic growth. However, the expansion of enrollment in the region, in order to keep pace with a larger regional and statewide population, as well as the goal of increasing access to high-quality higher education, placed significant strain on the South Coast housing market, as the development of housing for these students was limited during the last decade. While the lack of student housing strains the entire South Coast region, the impact is most pronounced in Isla Vista, where more than half of the South Coast enrolled college and graduate student population resides.

Recent developments have also influenced the conversations regarding housing and enrollment at UCSB. In mid-2021, a high-profile donor proposed a plan and funding for a new dormitory at UCSB capable of housing 4,500 students. The university is currently moving forward with the project in order to add dormitory capacity, and meet obligations under the LRDP, despite intense criticism from various stakeholders related to the size, scale and design of the dormitory. The City of Goleta also sued UCSB in early December for breach of the LRDP, citing continued enrollment expansion without new housing development.

Extremely Tight Housing Markets

As a result of the significant underproduction of housing, as well as a large number of seasonal rentals and student-occupied housing in the South Coast region (and across broader Santa Barbara County), the supply of homes available to either rent or buy was extremely limited. In the South Coast, only approximately 900 units were available for rent as of 2019, according to the Census. As a result, the rental vacancy rate in the South Coast, which does not count in seasonally vacant rentals or vacation homes, was 2.2% as of 2019, compared with a vacancy rate of 4.1% in California, and 6.0% nationally. The situation was similar in the for-sale market, with only 0.4% of the total housing stock reported as for-sale, according to the Census as of 2019, less than half the national rate. The lack of available supply reflects the decades of housing underproduction, combined with strong demand to live in the South Coast, both for jobs and lifestyle. While this is the most recently available data from the Census, it does not reflect the rapid shift that took place during the COVID-19 pandemic.

Economic and Fiscal Impact Analysis of Building More Housing

RCG used IMPLAN, a nationally recognized input-output modeling system, to measure the potential countywide economic benefits generated throughout Santa Barbara County, by the construction of new single family homes and multifamily units within the South Coast. The model measures the economic impact through changes in employment, income and overall economic activity throughout the County. The impact for construction activities is generally considered temporary for individual projects; however, given the significant housing shortage in the region, RCG expects the need for a prolonged period of elevated construction activity compared with historical trends. The prolonged period of new construction would generate longer-lasting benefits compared with the economic impact derived from individual developments.

The potential economic impacts that could be generated by expanding new housing construction would extend into numerous areas of the economy. In the immediate term, local employment gains would be generated from single family homebuilding and multifamily development. However, reflecting the ongoing national labor shortage and the likelihood of laborers commuting to work from outside the region, these impacts would be somewhat limited within Santa Barbara County. More importantly**, the new employment would generate additional income to be spent in the local economy**. New disposable income generated per employee is typically spent on a variety of items such as food, clothing, transportation, health care and a range of other services, creating a positive impact (multiplier effect) that further adds to economic activity throughout the regional economy. Additionally, wages and salaries of workers, and the respective spending within the region, are subject to a variety of local taxes, which would generate a positive fiscal impact for Santa Barbara County, as well as the local municipalities and special districts within the County. During the planning and construction process, supply chains that support a variety of sectors and subsectors, including professional and business services, financial activities, retail trade and transportation services would benefit from increased spending directed towards labor, materials, architectural and engineering services, overhead, insurance, taxes and other costs associated with construction. Similar to employee wages and salaries, the profits of these businesses may be subject to local taxes.

Methodology

To measure the related economic impacts using IMPLAN, RCG determined broad estimates of the expected construction costs associated with building 100 new single family homes and 400 new multifamily units in the South Coast. While the actual underbuilding gap to be filled is much greater in the region, the analysis provides scalable figures that create a frame of reference for the benefits generated by these types of new construction. Considering the local land constraints, a greater number of multifamily units was used in the analysis in order to broadly capture the potential for both economic benefits and the creation of significantly more housing units through an increased level of multifamily development—an approach that would likely be necessary to address the ongoing supply and affordability issues within the South Coast. The costs associated with this new development are estimated based on recent hard construction costs and local home values as of October 2021. Specifically, the cost to build a single family home and a multifamily unit was estimated at approximately $677,000 per home and $183,000 per unit, respectively. The single family construction cost was estimated using the median local home price of $1.93 million, according to information from the Santa Barbara Association of REALTORS®. The median home price generally accounts for land values, the total construction cost, financing costs, overhead and general expenses, marketing costs, sales commissions and potential profits, according to a survey from the National Association of Home Builders (NAHB). Using the survey from the NAHB and regional land values from the Federal Housing Finance Agency (FHFA), the average total construction cost as a share of final home value was estimated at 35%. Based on this share, the per square foot value for single family home construction equated to $368. With an average square foot per home of 1,840 in Santa Barbara County, according to the FHFA, the total construction cost per home would translate to roughly $677,000. For multifamily units, the estimated per square foot construction cost was $268, applying an index of cost growth from the California Department of General Services Construction Cost Index to the most recent statewide construction cost estimates from the Terner Center for Housing Innovation at the University of California, Berkeley. With an average square foot per unit of 681 among professionally-managed apartment buildings in Santa Barbara County, according to Yardi Matrix, the total construction cost per unit was $183,000. Total construction costs used in this analysis are based on broad estimates intended to capture potential macroeconomic impacts and are likely conservative when compared with other studies examining individual development pro formas, including the range of cost estimates provided in a recent analysis of Floor-to-Lot Area (FAR) ratios for the City of Santa Barbara, in a report by BAE Urban Economics. Depending on the nature of future projects and the specific location of new developments, there is a considerable probability that RCG's estimates may understate the full magnitude of the potential economic impact and tax revenue that could be generated in the region.

Fiscal Impact at Build-Out

100 New Homes and 400 New Units Constructed

	Local Taxes
Single Family	$2,291,000
Multifamily	$2,031,000

Notes: Constant 2019 dollars; Local taxes represent countywide taxes and include allocations to cities, towns, and special districts within Santa Barbara County
Sources: IMPLAN, RCG

Single Family Economic Impact at Build-Out

100 New Single Family Homes Constructed

	Labor Income	Economic Activity
Direct	$36.6 million	$67.7 million
Indirect & Induced	$14.6 million	$42.0 million
Total	**$51.2 million**	**$109.7 million**

Notes: Constant 2019 dollars; Figures may not add up to total due to rounding
Sources: IMPLAN, RCG

Multifamily Economic Impact at Build-Out

400 New Multifamily Units Constructed

	Labor Income	Economic Activity
Direct	$53.0 million	$73.2 million
Indirect & Induced	$14.5 million	$42.2 million
Total	**$67.4 million**	**$115.4 million**

Notes: Constant 2019 dollars; Figures may not add up to total due to rounding
Sources: IMPLAN, RCG

Based on these estimates of housing construction costs, RCG estimates that **every 100 new single family homes built would generate $51.2 million in labor income, and provide additional economic activity of $109.7 million** through the lifespan of the project. Similarly, RCG estimates that every **400 new multifamily units built would generate $67.4 million in labor income and provide additional economic activity of $115.4 million** through the lifespan of the project. Notably, these estimates of the potential macroeconomic impact are based only on 100 new homes and 400 new units to provide a scalable frame of reference for understanding the positive benefits from new construction on the surrounding economy.

In addition to new employment and economic activity, every 100 new single family homes and 400 new multifamily units built would be expected to **generate $2.29 million and $2.31 million, respectively, in new local tax revenue**, reflecting a wide range of activity, including taxes on production and imports net of subsidies, sales taxes, property taxes and other forms of revenues generated through the construction timeline. Additionally, the local taxes represent allocations to cities, towns and special districts within Santa Barbara County, as well as countywide taxes, which would **benefit a variety of local activities, such as funding for K-12 education, parks, first responders and many other essential community services**.

While some impacts of development, such as new construction jobs and additional tax revenue, will only persist during the lifespan of the development project, other benefits can be expected to linger over the longer term. For example, upon completion of new housing units, new household formation, supported by greater availability and affordability of housing, provides an additional potential source of ongoing spending and revenue within the local economy. In the case of new multifamily units, monthly rent payments also provide a source of ongoing economic activity, while home purchases are typically accompanied by considerable additional consumer spending on goods such as home furnishings, which further add to total economic activity.

V. The South Coast Affordability Crisis

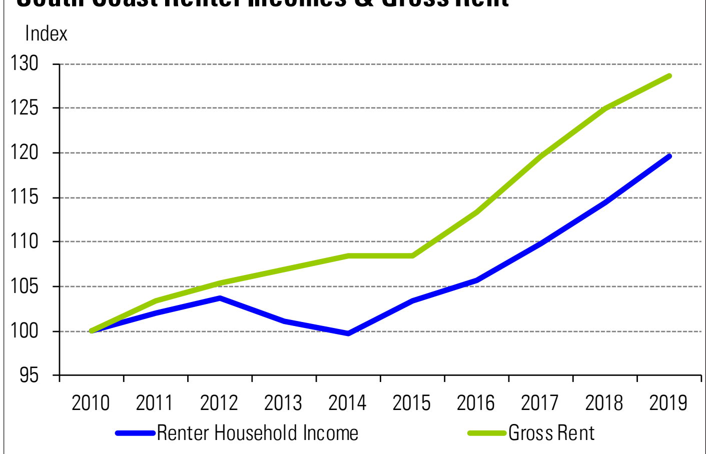
The lack of housing development, and an extremely tight supply of available homes, put significant upward pressure on both single family homes prices and apartment rents in the South Coast. As a result, the growth in housing costs far outpaced growth in incomes during the last decade. These factors converged to significantly exacerbate the affordability crisis in the South Coast in recent years.

Historical Affordability Trends (Pre-Pandemic)

Rental Housing Market

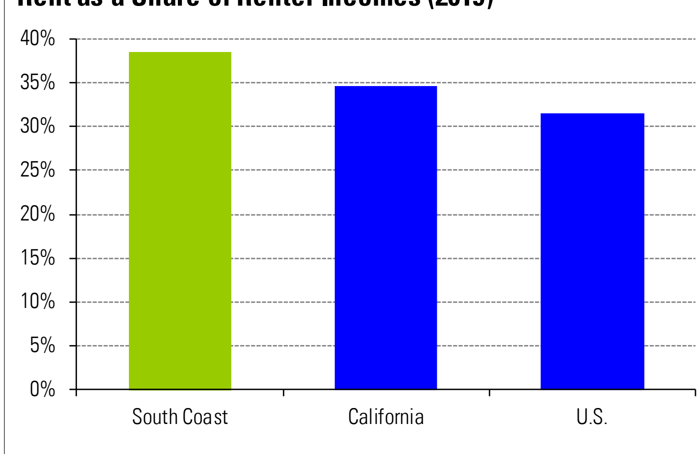
The rapid increase in apartment rents in the South Coast, was not matched by income growth during the last decade. The median gross rent is a conservative measure of rental costs that includes rent and utilities for all types of rental units, but also captures the monthly costs that in-place renters pay rather than current market rents for new leases, which tend to be significantly higher. Based on this measure, **the median rent in the South Coast increased by 28.6% from 2010 to 2019**, the most recent data available, to $1,820 per month, according to the Census. Meanwhile, the median household income among renter households in the South Coast increased by only 19.6% during the same period. This widening gap increased the housing stress for local renters. In fact, the annual cost of renting a unit based on the median gross rent in the South Coast accounted for 38.4% of the median household income among renter households as of 2019, a significantly greater share than both the national and statewide average, according to the Census. Moreover, signing a new apartment lease in a professionally-managed apartment building (likely a more accurate measure of market rents) was notably more costly, with **the average monthly rent of $2,200 in 2019** (according to Yardi Matrix) **translating to approximately 45.6% of the median renter household income per year**. For comparison, HUD defines cost burdened households as those paying more than 30% of their income for housing. Therefore, the median renter in the South Coast would certainly exceed these criteria for a housing cost burden. In fact, more than 56% of renters in Santa Barbara County were considered cost burdened as of 2019, according to the Joint Center for Housing Studies at Harvard (JCHS). Additionally**, more than one-quarter of all renters spent greater than 50% of their annual income on rent**, and were considered severely cost-burdened. In fact, even prior to the surge in housing costs amid the pandemic, in order to afford the median gross rent in the South Coast without spending more than 30% of household income on housing, a household needed to earn $72,800 as of 2019, which was 28% greater than the actual median renter household income in the area. **It should be noted that the low level of housing affordability relative to income in the South Coast is partly influenced by the sizable share of relatively low-income college students in the region.** In any case, the income level needed to avoid cost burdens increased by nearly 29% from 2010 to 2019, significantly faster than the growth in the median renter income, as highlighted previously. Among professionally-managed apartments units, **renter households needed an income of $88,100 in 2019 to afford an apartment without cost burdens**. For many households, especially those working in middle-income jobs, such as social services, public safety or the service industry, the imbalance between wage growth and rent growth created a serious cost burden, and limited the ability for these households to afford other costs of living, or to save for the future. The elevated cost burden placed on renters, as a result of strong renter demand and limited new multifamily housing development, translated to increasingly unsustainable housing affordability challenges for many households—a factor that is likely to further accelerate the existing trend of residents and workers moving to locations farther outside of the South Coast region. Alternatively, employers may be forced to increase wages significantly to attract workers to the South Coast, a reality that may prove prohibitively expensive considering the limited profit margins for businesses (especially small businesses) in many industries. Additionally, renter cost burdens in the South Coast are likely to continue to limit the number of young professionals willing and able to move into the region. **Without the ability to attract a young, well-educated**

South Coast Renter Incomes & Gross Rent



Sources: Census, RCG

Rent as a Share of Renter Incomes (2019)



Sources: Census, RCG

and dynamic workforce, local employers may look to move or expand outside of the region, or take advantage of labor from a remote workforce, possibly reducing local spending, job opportunities and economic growth and resiliency in the longer term.

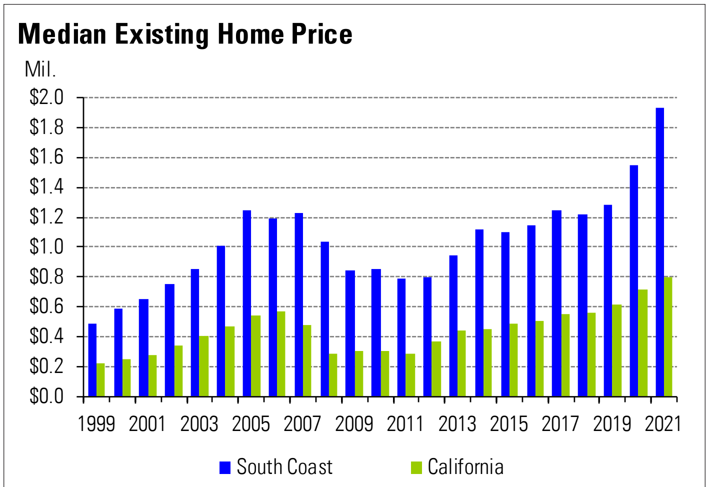
For-Sale Housing Market

In the South Coast for-sale housing market, home prices increased even more rapidly than apartment rents in recent years, putting homeownership out of reach for an increasing number of local households and reducing housing affordability. Prior to the pandemic, the median existing single family home price increased by 162.2% from 1999 to 2019, or a compound annual growth rate of 4.9%, to $1.2 million (far exceeding the pace of inflation). This was more than double the statewide median existing home price as of 2019. From 2010 to 2019 alone, the median single family home price increased by more than 51% in the South Coast, while the median condominium price increased at a slightly more rapid pace of 54%. Consistent with median price appreciation, the number of homes sold for less than $1.0 million declined precipitously, while the number of homes sold for more than $1.0 million increased rapidly. In fact, 84.3% of all existing homes sold in 1999 were sold for less than $1.0 million, while homes selling for $3.0 million or more accounted for only 2% of sales. By 2019, less than one-third of existing home sales were for less than $1.0 million, while nearly 15% sold for $3.0 million or more. Relative to household incomes in the local area, this price appreciation was particularly concerning, especially during the last economic cycle. For example, **the pace of home price growth from 2013 to 2019, at 36%, was more than double the growth in the overall median household income for all households (owners and renters) in the South Coast, which increased by only 16% from 2013 to 2019,** comparable with the 18% median income growth among renter households. This dynamic posed a significant affordability challenge for many local households, particularly renter households aspiring to purchase their first home.

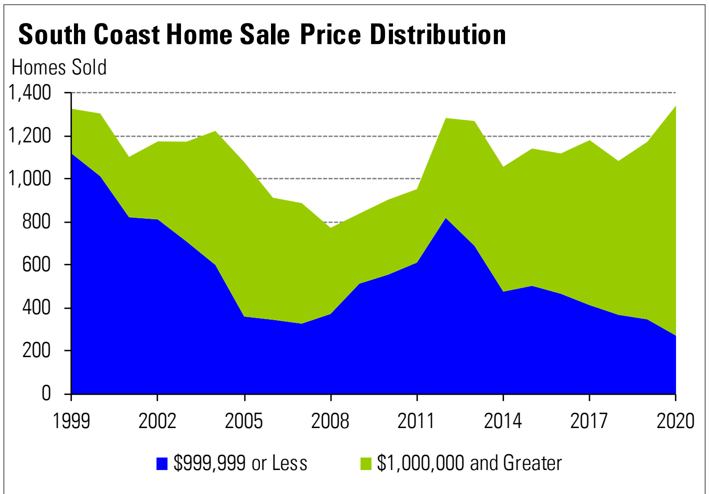
The rapid increase in housing prices when compared with incomes contributed to declining affordability across the region. Highlighting this trend, was the dramatic shift in affordability as measured by the South Coast price-to-income ratio (PTI). Specifically, PTI measures the ratio of the median existing single family home price in the market to the median household income during the same time period. By this calculation, the PTI in the South Coast increased to 15.7 as of 2019, up from 12.9 in 2010, an increase of 22%. The 2019 PTI in the South Coast was nearly double the California average of 8.2 and more than three times the national ratio of 4.4.

Single Family Housing Affordability

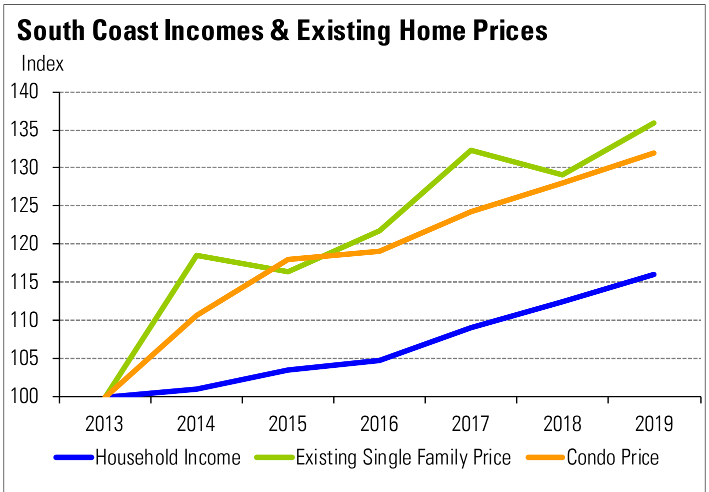
RCG's proprietary single family housing affordability metric further demonstrates the extent of the affordability challenges in the South



Sources: SBAOR, CAR, RCG

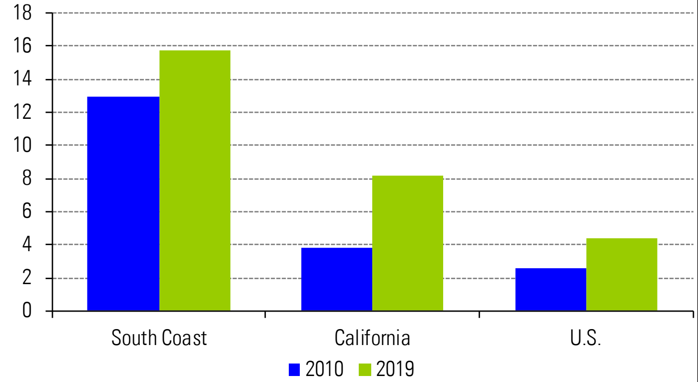


Sources: SBAOR, RCG



Sources: Census, SBAOR, RCG

Single Family Median Home Price to Income Ratio (2019)



Sources: Census, RCG

Coast even prior to the surge in home prices amid the pandemic. RCG calculated the share of South Coast households able to afford the monthly cost on a home, based on: 1) the local median sales price for existing homes; 2) the prevailing mortgage rate; 3) a standard 30-year fixed-rate mortgage; 4) a traditional 20% down payment; 5) assumptions regarding typical property tax and insurance costs; and 6) an affordability criteria based on the standard for a housing cost burden. Based on this metric, RCG estimated that **only 14.8% of all households in the South Coast (including renters and existing homeowners) were able to afford the monthly costs associated with the median-priced home as of 2019, compared with the statewide affordability rate of 30.9%**. Further, the minimum income needed to afford the median-priced home increased by more than $72,000, or 37%, to $266,700, from 2010 to 2019. Additionally, the affordability crisis was even more severe for South Coast renter households, as **RCG estimates that less than 8% of renters had sufficient income to be able to afford the monthly payments on the median-priced single family home as of 2019**, even in the unlikely scenario that these households already had access to a full 20% down payment assumed in the calculation (approximately $257,000 as of year-end 2019). The South Coast affordability was approximately half the affordability estimate of more than 16% among all renter households statewide. These metrics exemplify the scale of the affordability crisis that was already gripping the South Coast region, for both homeowners and renters, even prior to the onset of the COVID-19 pandemic.

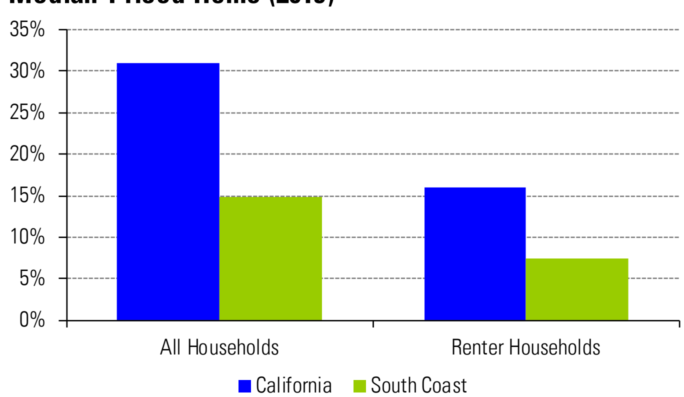
The COVID-19 Pandemic Further Exacerbated Affordability Challenges in the South Coast

Amid one of the most significant economic shocks in modern history, housing affordability challenges deteriorated significantly in the South Coast, despite historically low mortgage rates. A rush of demand for more space, and the ability for some workers to work remotely in more desirable locations, such as the coastal communities in the South Coast, put significant pressure on the already tight South Coast housing market. **Even while wages increased at the fastest pace in nearly a decade, apartment rents and the median existing home price increased more rapidly.** The Santa Barbara County average hourly wage, the latest available data on local income growth, increased by 8.0% from November 2019 to November 2021, compared with increases in housing costs in the South Coast of nearly 9% for the average rent among professionally-managed apartments, and a staggering 53% increase in the median existing home price.

Housing Burdens Increased Further for Renters

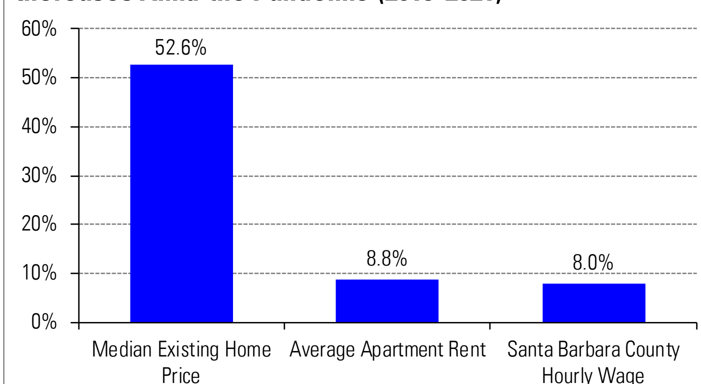
While Census data on the median gross rent since the pandemic started is not yet available, among professionally-managed apartment buildings, the increase in the last two years translated to an absolute increase in the monthly average apartment rent of $190, or more than $2,300 per year, bringing the average monthly rent in the area to $2,395, according to Yardi Matrix. Furthermore, when measured from five years prior (October 2016), the increase totaled 25%, or an absolute increase of $485 ($5,820 annually). As a result of the increase in the average rent during the COVID-19 pandemic,

Share of Households Able to Afford the Median-Priced Home (2019)

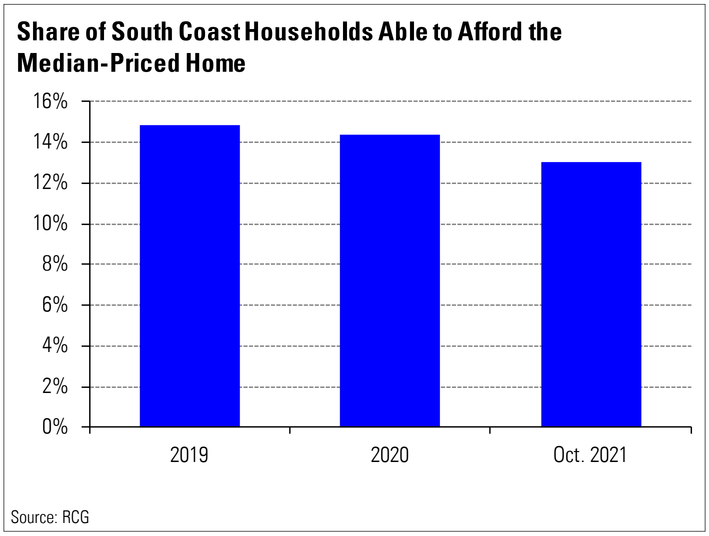


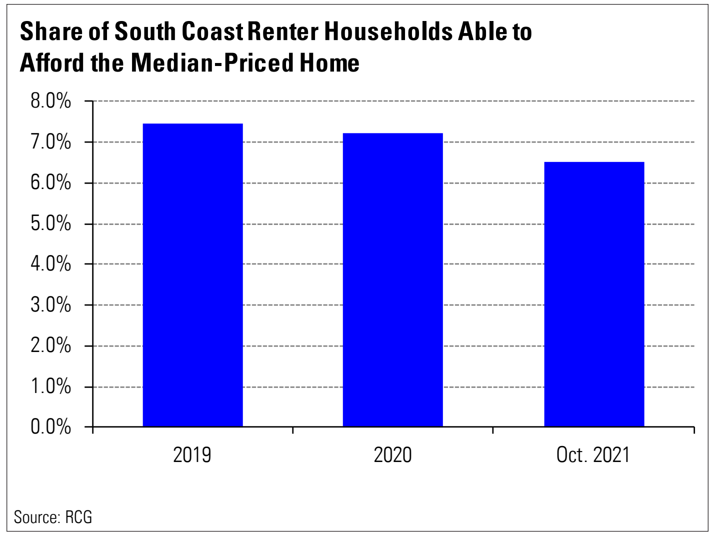
Source: RCG

South Coast Housing Costs vs. Wage Increases Amid the Pandemic (2019-2021)



Sources: SBAOR, Yardi Matrix, BLS, RCG





and the years preceding the pandemic**, the annual household income needed to afford the average monthly rent grew to $95,800 as of November 2021, from only $76,1000 in November 2016, an increase of $19,700**. The significant increase in apartment rents during the pandemic is expected to further hamper the ability of South Coast renter households to keep up with the daily costs of living, save for a down payment on a home or attain a greater level of financial stability. Moreover, these factors may add additional outmigration pressure, particularly for low- and moderate-income households, households of color and young families, factors may limit the ability of local employers to retain and attract talent, and could slow the pace of the local economic recovery. While the statewide cap on rent increases adopted in 2020 (AB 1482) does limit annual rent increases to 5% plus the change in the regional Consumer Price Index (CPI), these changes can still be significant during periods of inflation. Moreover, rent caps or rent control measures frequently result in unintended consequences. Notably, rent caps incentivize owners to increase rents by as much as possible every year, and avoid reducing rents during an economic downturn, in order to avoid missing out on future income.

Tightening For-Sale Inventory

Beyond the rapid increase in prices, the inventory of for-sale homes also tightened since the start of the pandemic, as fewer households opted to put their homes on the market during the pandemic. This exacerbated price pressures in the single family housing market, and put homeownership further out of reach for many local households. As of November 2021, there were 1,430 active single-family home listings in the South Coast according to the Santa Barbara Association of REALTORS®, which was a decline of 100 homes from 2020, and more than 9% less than the average annual listings from 2013 to 2019.

Homeownership Became Ever Harder to Attain

The vast disparity between single family home price growth and wage growth also resulted in a drastic increase in the PTI (price-to-income) ratio. As of November 2021, the ratio of the median existing home price to the median household income increased to 22.6 from 15.7 in 2019, even after accounting for strong wage growth in 2021. For renter households, the increase was even more dramatic, increasing to 32.5 during the same period. Moreover, despite historically low mortgage rates, the especially sharp home price spike also put further downward pressure on the share of households in the South Coast able to afford the median-priced home. **RCG estimated that single family housing affordability declined from 14.8% to 13% as of year-end 2021**, translating to approximately 1,400 fewer South Coast households with sufficient income to be who were able to afford to purchase the median-priced home, compared with 2019, including both renters and existing homeowners. **For South Coast renter households, the share able to afford the median priced single family home was approximately half that of all households, with an estimated 6.5% affordability at year-end 2021**. In absolute terms, even if renter households had access to sufficient savings to make a full 20% down payment, RCG estimated that only 5,100 renter households in the South Coast had enough income to cover the monthly costs of homeownership based on the median home price.

Housing Market Outlook May Further Reduce Affordability

Beyond the recent impacts of the COVID-19 pandemic on South Coast housing affordability, without a significant shift in the local supply-demand dynamics, future changes in the broader housing market are likely to further reduce affordability. Specifically, with concerns about inflation, RCG expects mortgage rates to rise as the Federal Reserve gradually pulls back on highly accommodative monetary policy and subsequently raises interest rates. The resulting effect on housing affordability could be significant, even if the pace of home price appreciation moderates following the recent

Impact of Mortgage Rates on South Coast Single Family Affordability

Average Mortgage Rate	Affordability	Households Able to Afford
3.0%	13.0%	10,200
3.5%	12.7%	9,900
4.0%	12.4%	9,700
5.0%	11.7%	9,100

Source: RCG

price spike. For example, all else equal, if the current mortgage rate increased to 5% in the coming years, the number of households able to afford the median-priced single family home in the South Coast would decline by more than 1,000 households, which would translate to an overall affordability rate of 11.7% among owner and renter households combined. While local policies may not be able to affect the mortgage rate environment, it is imperative to account for the effects of such a shift when considering the urgency of this affordability crisis in the South Coast.

VI. Barriers to Development

New housing developments in the South Coast face high barriers to entry, with challenges ranging from immutable (such as geographic constraints) to cultural and political factors (such as local community opposition). While this list is far from exhaustive, it is intended to offer insight into some of the most significant development barriers that inhibit the production of new supply in the South Coast. Beyond these major barriers, the local regulatory regime, zoning and approval process are also critically important considerations, which are discussed at length in the subsequent section of this report.

Geography

- Locked between the Pacific Ocean and the Santa Ynez Mountains, the South Coast has relatively few sizable undeveloped parcels of land remaining. Increased wildfire risks and safety hazards and added expenses associated with mountainous terrain further limit the amount of space available to develop, while restrictions associated with the Coastal Commission, complex agricultural zoning regulations and other policy restrictions block development in the few remaining undeveloped parcels, as in the case of Bishop Ranch in Goleta. Moreover, though the airport, university, and park lands contribute to the economic vitality of the region, they also pose significant constraints on the amount of land available for new housing development.
- As of 2019, the average value of one acre of land in single family parcels in Santa Barbara County was nearly $1.4 million and land accounted for 41.7% of the value of single family properties in the area, according to the Federal Housing Finance Agency (FHFA). In comparison, as of 2010, the average land value was only $931,000 per acre, representing a 46.6% increase in less than a decade. Notably, this dramatic increase in land values was prior to the rapid acceleration in home price growth during the pandemic. While data on land values in 2020 and 2021 are not yet available, it is reasonable to assume that the land share of property values held relatively constant and that the cost of land would certainly have increased considerably alongside the spike in the local median home price since the onset of the pandemic.
- **Key takeaway:** the scarcity of developable land in the South Coast contributes to the high cost of land and adds significantly to the cost of housing production.

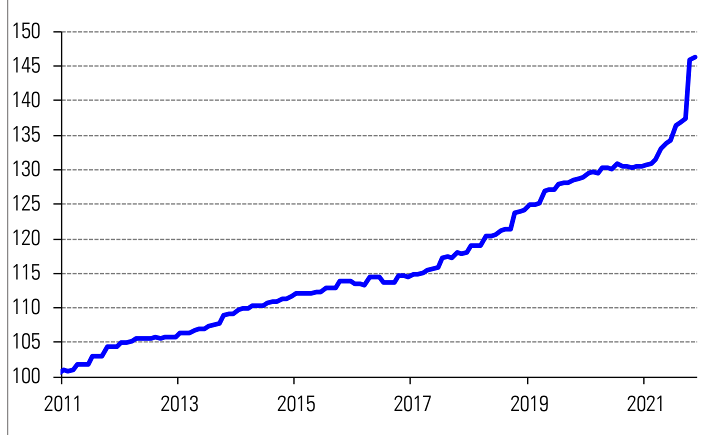
Water

- Recurring droughts across the state threaten the water supply in the South Coast. As of November 2021, the state of the drought in Santa Barbara County was assigned at Level D2, indicating severe drought, according to the National Integrated Drought Information System.
- Across the County, residents receive water from a variety of sources, varying by jurisdiction. Major water sources include groundwater, state water, recycled water, storm runoff and desalination. In the City of Santa Barbara, roughly 30% of annual water demand is met through desalination, through the Charles E. Meyer Desalination Plant.
- In Goleta, the SAFE Water Supplies Ordinance of 1991, which imposed higher standards for new water hook-ups, poses an additional barrier for housing development. In 2014, a complete moratorium on all new or additional connections was imposed, and will persist until the annual drought buffer storage commitment is achieved.
- **Key takeaway:** Without improvements in water technology and infrastructure to improve efficiency, recovery, reuse and capacity, water will remain a limiting factor for housing development in the South Coast, especially in the new subdivisions where water demand is substantial and infrastructure may be lacking.

Material and Labor Costs

- Across many parts of the nation, a shortage of construction labor is delaying development projects and driving up construction costs, accelerating the pre-pandemic trend of rising costs of construction. From February 2020 through September 2021, average construction wages across the nation rose by 6%, according to data from the ADP Research Institute Workforce Vitality report. Notably, however, the effects of rising labor costs are especially important in the South Coast, where construction workers often cannot afford to live close enough to make it practical to work in the South Coast, compared with working construction jobs in markets outside the region. Furthermore, the availability of skilled, union labor can be even more limited and more costly than non-union labor, a factor that can further add to constructions costs, particularly in cases of subsidized or affordable housing developments.

U.S. Producer Price Index (Construction)



Source: BLS

- Material costs also increased rapidly, particularly amid widespread pandemic-induced supply chain challenges. As of November 2021, the national Producer Price Index for construction goods grew by 12.3% year-over-year, as seen in the nearby chart, reflecting national shortages, supply chain issues and broader inflation.
- **Key Takeaway:** While construction costs are rising across the nation, barriers in the South Coast—particularly the lack of workforce housing—pose additional challenges and significantly increase the cost of the development.

History of Community Opposition

- Community opposition—also frequently referred to as "NIMBY-ism" (Not In My Backyard)—refers to the direct and indirect methods community members or groups may utilize to stymie development projects. While community opposition can cause individual projects to stagnate, or even prevent them from moving forward entirely, a social and political culture of anti-growth sentiment can also influence the broader approach to housing within the region (i.e., through zoning restrictions, regulatory hurdles and red tape, litigious behavior, etc.). While community opposition is not unique to Santa Barbara, there is a strong history of anti-growth sentiment within the Santa Barbara area, dating back at least to the early 1970s.
- Currently, many existing local and state policies have a tendency to benefit those who are already existing residents and property owners, at times at the expense of (or even to the exclusion of) new residents. Notably, similar to other high-cost areas in the state, the low housing stock turnover among older residents and retirees—who, in other markets, might be expected to vacate larger family homes in favor of smaller, more easily-managed units—substantially limits the available supply of single family homes in the South Coast and puts upward pressure on prices. As home prices, as well as rents, grow further, **an increasingly large number of households are being left out of the benefits of homeownership, or being pushed out of the region entirely, harming economic mobility and increasing racial and socioeconomic inequality**.
- In recent years, some positive changes are underway, with a revived interest in regional growth. Notably, the Average Unit Density program, enacted in the City of Santa Barbara in 2012, allowed new development to move forward in significant quantities for the first time in several decades. Although, more recent affordability requirements have made it more difficult for new projects to pencil. However, on several key issues, including building height restrictions, limited parking, and greater density, significant community opposition remains a major challenge for policymakers and new housing development in the region.
- **Key takeaway:** While community opposition has historically been a major factor hampering the growth of housing in the region, recent reforms, adopted in accordance with state requirements, signal the potential for positive change, though many issues remain contentious.

VII. The South Coast Regulatory Regime

Some of the barriers to housing development in the South Coast, such as geography and water scarcity, have been imposed by nature. Other barriers, such as material costs, are imposed by macroeconomic conditions outside of the control of local actors. Still others are the byproduct of generations of certain ideological views that are not easily replaced. Yet, **some of the most significant hurdles to housing development are consequences, both direct and indirect, of the land use regulatory regime in the South Coast**. Examples of these barriers and hurdles include a lengthy and complicated design review process, the costs and risks associated with holding a property through such a process, uncertainty associated in various permitting processes and well-intentioned, but financially challenging, inclusionary zoning requirements. These are but a few items that local policymakers should consider when assessing the barriers to housing development of all types in the South Coast region.

Historical Policies and Growth Restrictions

There are numerous examples of policies that directly or indirectly limited housing development in the South Coast over the years, as well as more recent policies intended to alleviate these historical barriers. While these policies vary greatly by geography, form of implementation, intention and enforcement, historical growth restrictions and height limits were among most notable local measures that affected the history of housing production in the region.

In fact, several local municipalities within the South Coast enacted policies specifically aimed at restricting population growth; examples include a population cap in the City of Santa Barbara, imposed in 1977, and a growth ceiling in Goleta, imposed in 1989.

- In the City of Santa Barbara, the local government rezoned residential and commercial areas with the intent to limit population size to 85,000 people. While not binding, this ordinance likely contributed to the stagnation of local population growth. Indeed, as of 2020, the population continued to hover at less than 90,000, compared with 88,500 in 2010 and 85,700 in 1990.
- Similarly, the 1989 growth ceiling in Goleta restricted new development to a limit of no more than 200 new homes and 80,000 square feet of commercial development per year. While restrictions were eased in 1996, housing development still has yet to fully recover.

Building height limits have also long been a part of the local development landscape.

Selected Local Policies in the South Coast

Year	Name	Location	Impact
1968	Proposition C	Santa Barbara City	Established the Housing Authority Commission, which aims to provide affordable rental housing for low income families and seniors.
1972	Santa Barbara Redevelopment Agency	Santa Barbara City	Established the RDA to revitalize the downtown core and maintain a vibrant retail presence. The RDA was cut in 2012 by the state government for budget reasons.
1972-1997	Water Meter Moratorium	Goleta	Because of a limited water supply, the Goleta Water Board imposed a moratorium on new hookups, which halts new development.
1977	Ordinance SB 6-75	Santa Barbara City	Rezoned residential and commercial areas with the intent to limit population size to 85,000. While not binding, this ordinance did cause growth to stagnate.
1977	Historic Structures Ordinance	Santa Barbara City	Formally established the Landmarks Committee's powers and duties in historical preservation (Historic Landmarks Commission later established via Charter Amendment in 1993).
1979	Reject State Water Project Pipeline	Santa Barbara County	Voters rejected the State Water Project pipeline that would have connected them with the California Aqueduct.
1989	Measure E	Santa Barbara City	Prohibited more than 3 million square feet of new commercial space over the next 20 years and imposed traffic restrictions. This policy was modified in 2013.
1989	Growth Ceiling	Goleta	Allowed no more than 200 new homes and 80,000 square feet of commercial development per year.
1991	Accepts State Water Project Pipeline	Santa Barbara County	At the end of the 6 year drought, the County reversed their 1979 decision and connects with the California Aqueduct, allowing for more development to occur.
1991	SAFE Water Supplies Ordinance	Goleta	Imposed conditions the District must meet before approving new or additional water connections (no water rationing, meeting the Annual Storage Commitment to the Drought Buffer, etc.)
1996	Revise 1989 growth ceiling	Goleta	Eased 1989 growth cap; allows up to 120,000 square feet of commercial development per year and exempts affordable housing projects from the annual residential cap.
2010	Long Range Development Plan	Santa Barbara City	Agreement with the university to cap enrollments at 25,000 students through the year 2025 and increase on-campus housing for both students and faculty.
2013	Average Unit Density Program	Santa Barbara City	Allowed increased density in residential areas, leading to a large increase in housing supply for the first time in decade, though the units are generally high-end and not affordable.
2015	Short-Term Rental Ordinance	Santa Barbara City	Severely restricted short-term rentals in an attempt to free up housing for residents. In 2021, this policy was eased to allow short-term rentals in commercial areas zoned for hotels (but not residential areas).
2017	Resolution No. 5750	Carpinteria	Established a Development Impact Mitigation Fee schedule, applying to all types of residential and commercial units.
2018	Measure C	Santa Barbara City	Levied an additional sales tax to raise 22 million in tax dollars for general city use as a replacement for the Redevelopment Agency.

Sources: Local government websites

- Partly in response to the earthquake of 1925, the Santa Barbara City Council imposed strict height requirements in 1930, capping multifamily residential zones at 45 feet and the commercial zone at 60 feet, which remain in effect today, though variances have occasionally been granted outside the business district.
- In 1972, to maintain architectural consistency and preserve the quaint beach-town charm of the city, Santa Barbara voters passed a measure that formally adopted the policy that "high buildings are inimical to the basic residential and historical character of the City."

Beyond these particularly high profile examples, the nearby table provides a broad timeline of notable local measures, both past and present, to provide historical context for the current regulatory regime. However, it is important to note that the listed policies represent a brief selection of examples for illustrative purposes, and do not represent an exhaustive list.

Costs and Impacts of the Regulatory Regime

When assessing the impacts of these barriers on development cost (and ultimately the cost of housing in the region), it is also important to recognize that, with the exception of affordable housing developments that receive subsidies, such as federal Low Income Housing Tax Credits, for most housing developments, the project must reach a certain threshold of profitability for the private market to proceed. Specifically, **regardless of how well-intentioned, equity investors, lenders, developers and construction contractors all need to consider not just the direct costs of moving forward with a project, but also the opportunity cost relative to other projects in other locations, as well as the balance of risk and reward in an industry where the costs of a failed development can be very high.**

Uncertainty and Risk

- Housing developers in the South Coast face significant uncertainty regarding the timing and likely end result of the development approval process. This largely stems from a lack of standardization in terms of the planning and approval process, which results in inconsistent and uncertain regulatory enforcement regarding local design codes. In fact, this was a recurring theme in interviews conducted by RCG for this study, and was also highlighted in the aforementioned BAE study on Floor-to-lot Area Ratios (FAR) commissioned by the City of Santa Barbara, which reported that "interviews with some local development practitioners indicated that the approvals process can be lengthy and uncertain."

- Of particular concern, across much of the region, it is almost impossible for developers to accurately predict whether or not a specific project proposal would be likely to meet the requirements for approval on a given site, and if so, how many units would end up getting approved or the likely overall size and scale of the project. Importantly, these factors are fundamental assumptions that developers need in order to complete the initial pro forma estimates of whether or not a project is financially viable. While nearly all South Coast jurisdictions are required to use objective design standards under the statewide Senate Bill 35 to help meet RHNA requirements, industry participants reported that, in practice, some South Coast jurisdictions utilize broader discretion to return projects to the design phase, or otherwise extend the planning process, including deeming new project plans "incomplete" for items that may not be directly defined in the objective design standards. This, in turn, increases the cost both in terms of time and the costs associated with multiple phases of redesign.
- The highly complex design and discretionary review process can often take months or even years, according to local stakeholders. In some cases stakeholders reported that it was rarely clear what criteria needed to be met to provide adequate plans that are not deemed "incomplete."
- Applications often need to move through a plethora of steps or departments before they can be considered complete, and even then, many stakeholders reported inconsistent rulings between design review boards and the planning commission, leading to further plan redesigns, and costing more time.
- In terms of the impact this uncertainty has on housing supply, for every additional month required to approve a housing development, the number of building permits that ultimately move forward can decrease by up to 10%, according to a 2000 study by researchers at the Wharton School of Business (Wharton) and University of British Columbia regarding land use regulation and new construction.
- **Associated Costs:** uncertainty in time and likelihood of approval increases difficulty in determining potential investment returns and in acquiring financing, especially for larger projects; increased carrying costs associated with long wait times; costs of land use consultants to guide projects through review; costs of redesigning plans to meet sometimes elusive standards.

Regulatory Hurdles

- While many design requirements are intended to preserve the unique character of South Coast communities, and ensure the safety of residents, some of these regulations deter the construction of new housing supply in the region.
- Examples of some of the restrictions that were mentioned most frequently in discussions with local stakeholders include:
  - **Height Limits**: While responsible height limits are necessary in any community, the implementation of certain restrictive height requirements may limit the ability for developers to achieve a sufficient number of units to reach the economies of scale needed to make sizable multifamily projects financially viable. Additionally, required reductions in height limits amid the design review process (reportedly not an uncommon occurrence), even of a few feet, can increase design costs while reducing the total number of units, both affordable and market-rate. This simultaneously adds cost to the development while reducing the future revenue potential of the project—factors that could prevent a new housing project from moving forward entirely. This is especially relevant when projects are forced to reduce heights below what would typically be allowable, such as 45 feet in the City of Santa Barbara (48 feet for a property utilizing the Average Unit Density (AUD) program) or 35 feet in the City of Goleta.
  - **Parking Requirements**: While parking requirements are set by the Coastal Commission in some South Coast communities to ensure beach access, in other parts of the region parking requirements of one space per unit or more can severely limit the total quantity of housing that developers can realistically bring to market on any given site, especially for larger projects. The burden of these requirements is further exacerbated if on-street parking is not included in these calculations. In fact, requiring parking in buildings can increase the rent paid per unit by up to 17%, according to researchers at the University of California, Los Angeles.
  - **Maximum Densities**: As is the case with height limits, responsible density regulations are necessary, but in some cases, local stakeholders voiced that density limits were so restrictive that the regulation effectively eliminates the possibility of developing lower-cost or workforce housing. Theoretically, higher permissible densities allow developers to amortize land, construction and amenity costs across a greater number of units, reducing the construction cost per unit and, potentially, the price of the units. If densities are too low, the private market will not be able to meet the revenue requirements for loan payments and profitability, or will be forced to focus on producing higher-priced, luxury units capable of recouping costs—a trend that is widely evident in terms of the types of projects that moved

forward in recent years in the South Coast. In the City of Santa Barbara, the ongoing shift towards a Floor-Area-Ratio model (discussed in more detail later in the report) could help to address some of these issues.

  - **Amenity Requirements**: Some stakeholders reported that regulations governing amenities were also onerous at times, and substantively increased the cost of development. For example, providing sizable private outdoor spaces, such as private balconies, can greatly increase the cost of construction per unit when compared with shared amenities such as communal open spaces. Additionally, even requiring large communal spaces within the building envelope can reduce the total number of units possible within the building footprint, greatly increasing the cost per unit.
  - **Disparity in Jurisdictional Regulations:** While some differences in local codes are to be expected, the vast patchwork of development guidelines across the South Coast creates significant hurdles for local developers. For example a project permitted in Goleta, would almost certainly require major design changes to meet the design guidelines in the City of Santa Barbara, the County, or Carpinteria, and vice versa.

- While many of these regulations are commonplace across the country, and are often necessary to ensure responsible development, local stakeholders reported that another major issue with local regulation was the uncertainty in enforcement and interpretation of local codes. A project may complete the review from one department, but then another department, or the design review board, may require changes to the height or density of the structure, even in cases where plans adhere to stated local zoning requirements.
- Broadly, the regulatory environment in the South Coast is likely too complex, and raised concerns with some local stakeholders that in some cases the local approval process may not be consistent with the principal of objective design standards. These factors serve to disincentivize housing production, and increase the costs of building rental and for-sale housing, including both market-rate and affordable housing. As posited previously, locations with more housing regulation have higher house prices and less construction, according to a meta-analysis of housing studies by researchers at Wharton and the Federal Reserve conducted as part of a 2015 study on regulation and housing supply.
- **Associated Costs:** inconsistent adherence to defined design standards and regulations, or a lack of clarity surrounding the application of those standards, increases design costs, adds uncertainty in the time necessary to review and approve projects and increases carrying costs. Developers cannot easily transition development plans from jurisdiction to jurisdiction. Ultimately, highly restrictive enforcement of local design requirements such as height, parking, density or amenities, can increase construction costs and reduce project viability and the total number of housing units built, even when individual project changes may seem small.

Fees and Consultancy Costs

- The need for fees for communities to fund essential planning operations is critical. However, local stakeholders voiced that, in aggregate, local application, design review and appeal fees could often become significant barriers to development. Onerous development fees can be especially burdensome when project margins are already compressed by significant uncertainty in the review process, carrying costs, regulatory requirements, affordable housing requirements and elevated material and labor costs.
- Site plan fees alone for many South Coast cities can reach tens of thousands of dollars. These numbers can become further inflated if the application undergoes an appeal. While comparing fee schedules across geographies and jurisdictions is difficult due to the differences in funding sources and review processes, it can provide some insight into local conditions. As a simplified example, the design review of a modestly sized 25-unit multifamily project with limited-to-no design changes may cost more than $9,500 in the City of Santa Barbara (a likely highly conservative value), according to the 2021 fee schedule. In other cities with lower barriers to housing development, across multiple states, these costs were all less than $7,500 (cities examined include Fresno, Phoenix and Colorado Springs). A zoning check alone, separate from the design review process, can also cost more than $1,000 alone in South Coast jurisdictions. Importantly, these do not include the hourly rate of planning department employees, the costs of which can become significant for a lengthy design review and architectural review processes with multiple rounds of changes.
- The Environmental Review process in South Coast jurisdictions can also be lengthy, and add further costs for developers when compared with other parts of California, especially with respect to community opposition to development and litigation risks. Further, many projects, especially infill projects in the urban core of Santa Barbara near State Street, would be further reviewed in relation to historical aspects of the project, adding time and more fees.
- Beyond the substantial fees associated with the local jurisdictions alone, many sites in the South Coast fall within the Coastal Zone, and therefore must also pay additional fees for Coastal Plan Review (not to mention the additional time, risks and regulatory requirements). While recent state laws may provide some limited opportunities to streamline the environmental review process, almost all projects must also undergo an extensive

California Environmental Quality Act (CEQA) review, adding further cost in both time and fees for developers.

- In addition to the fees associated with the review of the project, other fees, many of which are standard across most jurisdictions, include those for grading, electrical, plumbing and safety.
- **Associated Costs:** current fee schedules in South Coast jurisdictions are significant and often highly variable, depending upon the length of the review process and the number of appeals required; the uncertainty in cost can detract from the developer's ability to accurately predict cost and make it difficult to determine the feasibility of a project.

Inclusionary Zoning Requirements

- The current affordability crisis in the South Coast led some jurisdictions to enact inclusionary zoning requirements that require developers to include below-market-rate housing in private development projects.
- For instance, the Santa Barbara City Council enacted legislation in 2019 that requires projects with ten or more units to provide 15% of the units at rental rates affordable to households at the moderate-income level, or 80% to 120% of Area Median Income (AMI). In projects that utilize the AUD program, this share is 10%. Alternatively, developers may also opt to pay an in-lieu fee instead of producing affordable units on site, which is calculated based on the costs of production and price of the housing unit.
- While inclusionary zoning can provide benefits for communities with severe affordability challenges, and likely will play a role in local housing policy going forward, it is important that policymakers recognize the need for mechanisms that offset the costs of these units, and that the requirements are not overly onerous. Requiring a subsidy for rental units directly adds costs to the development and can influence the viability of the project, in which case the development may never happen at all. The addition of below-market units also increases the costs of the other units in the building, as the rents from the market-rate units essentially subsidize the affordable units if the development does end up happening.
- **While many cities across California implemented similar policies, the nuances of the socioeconomic make-up of the South Coast region make subsidizing the affordable units more difficult.** In large cities with inclusionary zoning policies, such as New York or San Francisco, affordable units may be more effectively subsidized through the rent, or sale, of very high-priced units, owing in part to the sheer quantity of demand even at elevated price points. However, the number of renters capable of affording units priced at the level required to offset costs of affordable housing is relatively small in the South Coast—a factor that can make it more difficult to offset the cost of affordable units without external subsidies.
- The cost dynamic for inclusionary housing development in the South Coast also reflects the fact that affordable housing does not pencil in most parts of the South Coast for most developers. As a result, this role largely falls to housing authorities or non-profit entities with significant subsidies, and even for those operators, projects are often tight.
- **Associated Costs**: while possibly necessary to supply affordable housing in the near-term, when combined with other barriers, inclusionary zoning can add significant costs to housing projects. In order to offset even a small number of affordable units, prices on other units likely must increase, potentially dramatically, as a result of the aforementioned barriers and hurdles; without mechanisms to offset these costs such as density bonuses discussed later in the report, developers may not be able to capture sufficient revenue to balance the costs of subsidizing the affordable units.

Direct and Indirect Impacts on the Cost of Development

The various barriers to development and hurdles under the current regulatory regime add significant costs and burdens to housing developments in the South Coast.

Firstly, and most importantly, there is a fundamental **inability for most major developers to meet the necessary returns associated with the high regulatory risk of building in the South Coast**. Long wait times, uncertainty surrounding final approval (even with significant expense in preparing plans and hiring local land-use consultants) and potential reductions in the unit count are all variables that create very high barriers to entry for developers. As a result, national builders and large developers, which can often achieve greater economies of scale in building and management, but also have a choice over where to invest that capital, have generally not entered this market—a factor that likely further increases the costs of developing housing. This is despite the fact that larger operators likely have access to a lower cost of capital. Given the large shortage of housing in so many areas of the country, in the current period, major developers can be selective in choosing areas where deals provide the best returns or lowest risks. Above all, returns and profits must be significant enough to account for the enhanced risk in the South Coast when compared with other investment decisions, or private capital will be unwilling to move ahead with projects.

The **long timelines for projects in the South Coast add significant carrying costs for the developer** as well. This is especially the case when dealing with multifamily projects, particularly larger (25+) unit projects, a considerable number of which would be needed to make meaningful strides toward addressing the regional affordability crisis. Uncertainty in the permitting process, both in duration and design review, can add months, and possibly even years, to a project timeline. The costs associated with this hold period reduce the overall yield of projects, and can make projects no longer financially feasible. Therefore, in order to meet the yield requirements needed to make a project viable, developer's must either:

- Pay less for the acquisition of the land, an option which is not realistic without government involvement, as a result of the unique nature of the South Coast geography; or
- Make the housing units more expensive.

As a result, in the current environment, **the only types of housing that can effectively be brought to market in the South Coast are highly subsidized affordable units, or high-priced, luxury units that can generate enough revenue to offset previously mentioned costs** (i.e. uncertainty, consultants, carrying costs, etc.). Confirming this fact, all the professionally-managed apartment units that delivered in the last two decades were in Class A, luxury buildings, according to Yardi Matrix. Additional research from Wharton in the previously mentioned 2015 paper claimed that, "most models predict that regulation should reduce the elasticity of housing supply, resulting in a smaller stock of housing, [and] higher house prices." Based on historical underbuilding, the regulatory regime, an examination of local market data and numerous interviews with local stakeholders, RCG believes that it is quite clear that the South Coast exemplifies these model predictions, with the regulatory regime substantially limiting the growth of housing supply and significantly adding to local housing costs.

Finally, as discussed earlier in this study, the limited development of new housing and cost of living in the South Coast contributed to **attrition of skilled construction workers**, and a resulting increase in labor costs. Beyond the broader construction industry labor shortage around the nation, many skilled construction workers cannot afford to live within the South Coast region, or in many cases, even in Santa Barbara County. As a result, many commute long distances to work in the region, increasing labor costs further. In turn, this created a negative feedback loop, in which less development increased labor costs, reducing the viability of future development.

Critically, **lost economic activity from not building will compound the longer local jurisdictions do not act.** Beyond economic benefits, **the vitality of the region may also decline as economic stratification intensifies and diversity and inclusion declines**, and an increasing number of local service industry employees and essential workers are priced out of the region. In conjunction with these shifts, the environmental impacts of the many commuters forced to travel long distances to work in the South Coast, in many cases more than 50 miles, are likely to remain significant and increase further as more companies return to in-person work in the coming years.

The barriers and regulatory factors outlined in this report pose significant hurdles for local housing development and add a significant cost, further exacerbating the ongoing affordability crisis and negatively impacting the South Coast region as a whole. As highlighted in RCG's 2021 report on *State and Local Policy Strategies to Advance Housing Affordability* (produced for the National Association of REALTORS®), "for developers, time is money, and with faster approval times, developers could produce housing more consistently, which has the potential to lower construction costs and allow for lower housing costs over time." While some development barriers, such as geography and availability of water, are not items that can be addressed by a single region, many others are within the purview of South Coast jurisdictions, and meaningful action is critical to abate the current crisis.

VIII. Strategies and Policy Pathways

Considering the prior discussions regarding housing underproduction and the barriers to new housing supply, this section will provide a range of possible policy pathways for South Coast communities to support increased development of housing in order to begin to address the local affordability crisis. While each of these individual recommendations could prove productive, it is critical to note that the most effective strategy is likely a multi-pronged or "all-of-the-above" approach. Given the breadth of challenges and the long history of underbuilding, it is clear that no single policy is likely to be a silver bullet for increasing new housing supply or supporting housing affordability in the South Coast. However, by implementing a series of modest changes and local reforms, the whole can likely be greater than the sum of the parts, providing more significant relief and incentivizing new housing development to move forward. Additionally, it is important for the various jurisdictions in the South Coast to view this problem holistically and, where possible, prioritize regional solutions and cooperation for this regional problem.

Recent Efforts at Reform

While the prior section on the impacts of the existing regulatory regime outlined the potential additional costs incurred from the regulatory environment in the South Coast, local jurisdictions have also made significant strides towards policy reform and incentivizing housing development in the past five to ten years. Examples include:

- The Average Unit Density (AUD) program in the City of Santa Barbara
- Plans for pre-approved ADU designs in various South Coast communities
- Posting of objective design standards and transparency in the reform process
- Support for regional and local housing authorities

Overall, the perception among several local stakeholders interviewed for this research was that, while there is a long way to go, the mindset among local decision makers is shifting towards increased support for housing development and a recognition that new housing is critical to supporting housing affordability, diversity, equity and inclusion, and the overall vitality of the South Coast region.

Act on Recent State-Level Policies

- Recent legislation at the state level provides numerous regulations intended to streamline the local development approval process, especially in cases where local jurisdictions continue to be unable to fully meet statewide Regional Housing Need Assessment (RHNA) requirements. Currently, all South Coast jurisdictions, except for Carpinteria, fall into this category.
- Many state policies build upon the Housing Crisis Act of 2019 (SB 330), which was generally intended to help streamline the housing approval process in jurisdictions across the state by limiting various local discretions, such as the ability to downzone or increase fees.
- Some of the most significant state legislation with the potential to support new supply in the South Coast are highlighted below. Note that, while local areas may have considerable discretion regarding the ways and extent that some of these state rules are leveraged to incentivize housing production, the descriptions below are intended to offer just broad summaries of the mentioned statewide legislation, with more detailed recommendations provided in subsequent sections for policy themes that fall more directly within the purview of local jurisdiction:
    - The State of California passed a multitude of bills in recent years to promote the development of accessory dwelling units (ADUs). These include incentivizing ADU ordinances at the local level, providing grants for building ADUs and developing ADU programs, and streamlining the ADU approval process. While South Coast jurisdictions already utilize many of these policies, this remains a significant area of potential for further streamlining and advance planning, such as pre-approved designs and guidelines.
    - **Senate Bill 35 (2017):** In jurisdictions that do not meet RHNA requirements, this law requires local entities to provide a ministerial approval process, which bypasses CEQA, for multifamily housing projects meeting certain affordability criteria.
    - **Senate Bill 9 (2021)**: Allows for property owners to 1) build an additional housing unit on an existing single family lot; and 2) perform a lot split on a single family lot. As a result, a parcel that previously only allowed for one housing unit prior to the law could theoretically house a total of four units (split lot + additional unit). Note that this does not factor in additional ADUs. Certain exemptions and requirements are in place to limit this program to existing owners as opposed to investors. It should be noted that the number of lots where this program would be feasible may be somewhat limited based on financial feasibility and the costs of construction. However, in a July 2021 study, the Terner Center at UC Berkeley found that **SB9 could make it feasible to add 10,000 housing units on existing lots across Santa Barbara County**.
    - **Senate Bill 10 (2021)**: Creates an expedited process for local jurisdictions to **increase density along transit corridors and urban infill sites**, and such increases would qualify for ministerial approval, bypassing CEQA. While this process is voluntary, communities seeking to actively incentivize new supply could certainly leverage this process to help expedite and streamline the approval process.

- **Assembly Bill 1297 (2021)**: Authorizes the California Infrastructure and Economic Development Bank to invest in housing projects that meet certain financing limits and requirements.
- **Senate Bill 290 (2021):** Expands the **state density bonus for developers to build affordable housing for students and moderate-income families and removes the parking requirements** for developments meeting affordability and transit access requirements. Additionally, this law removes the ability for cities to revoke incentives for the "adverse impact on the physical environment" of a project.
- **Assembly Bill 602 (2021):** Requires local jurisdictions to reform local impact fee regimes. Principally, the bill requires cities to: 1) more clearly define the end use of impact fees, especially those to be used on future capital projects, and 2) impose these fees based on the square footage of proposed units as opposed to solely based on unit count. These reforms could more closely connect fees to the true impact of a project.

- The state also granted greater power to the California Department of Housing and Community Development (HCD) to enforce the California Housing Accountability Act, and as of January 2022, many more housing related laws including SB 330 and SB 35. In recent years, the willingness to enforce these policies was exemplified most readily in Huntington Beach, where the state found the City in breach of state law, as well as a late November 2021 letter sent to the City of San Francisco outlining concerns with recent project decisions.
- For the South Coast, these state policies provide methods by which local developers and/or planning departments can bypass some of the hurdles that have historically been associated with a lengthy, uncertain and costly review process, and could **help move new housing developments through the approval process more expeditiously**.
- **Primary Advantages:** swift implementation of development goals, tools to streamline the approval process, shields local governments from backlash from vocal minorities promoting anti-growth policies

Zoning and Density (AUD, FAR and Form-Based Code)

- The existing Average Unit Density (AUD) program and recently rejected Floor-to-Lot Area Ratio (FAR) program in the City of Santa Barbara were broadly intended to provide zoning for additional density beyond what would normally be allowed in a specific zone. While the City of Santa Barbara explored the transition to an FAR strategy, the City Council ultimately rejected this approach in February 2022. The City may instead consider the possibility of strengthening the existing AUD program.
- While the FAR program was not implemented, a study on the program highlighted areas where the legislation could go further, particularly with respect to ensuring that projects with a considerable number of new affordable housing units would be viable and more likely to move forward. These findings could illuminate future changes to the AUD program.
  - Research by BAE Urban Economics (September 2021) on the proposed Floor-to-Lot Area Ratio (FAR) zoning in the City of Santa Barbara highlights the ways that density bonuses in the form of an increased FAR could incentive developers to produce more affordable housing. Specifically, BAE found that **a 20% increase in FAR was generally sufficient to incentive new apartment developments that required 15% affordability,** but may not be sufficient at a 20% affordability threshold. Moreover, while FAR was expected to generally enhance feasibility relative to the existing AUD policy, **without these additional incentives, BAE found that, "there could be continued feasibility challenges"** for apartment projects even at a 10% affordability requirement.
- Additionally, other jurisdictions in the South Coast may be able to utilize the work done for the City of Santa Barbara, regarding both the AUD and FAR programs, and create, where possible, similar guidelines and codes to **help develop a regional housing development framework**.
- As discussed in the BAE study, it is clear that South Coast municipalities should provide sufficient incentives for smaller projects and those on smaller lots. This is especially important considering the substantial lack of "missing-middle" housing (2-4 unit structures) that were not built during previous decades (as highlighted previously in this report). Building more modestly-sized, and often more affordable, units of this kind should be a key component of addressing the housing availability and affordability issues in the South Coast.
- While the Santa Barbara City Council has discussed the need for more density in the urban core of Santa Barbara, it is critical that significant further zoning changes are implemented to achieve these gains and that the benefits of any density bonus system extend to other areas ripe for more dense housing. The deeply-rooted housing and affordability crises in the South Coast cannot be solved by a single neighborhood, much less one with highly restrictive height and density limits.
- **The specific details of any density bonus requirements are critically important; however, as projects still need to be financially viable**, consistent with the discussion regarding inclusionary zoning earlier in this report. Hence, where possible, density bonuses should be accompanied by other incentives and policy reforms mentioned in this report to ensure that projects have the potential to adequately cover construction costs and development loans, while achieving a sufficient profit margin

to move forward. Future changes to the AUD program should take these critically important factors into account.

- Taking the ideas of the AUD, and research done for the FAR reforms, further, jurisdictions could also utilize a form-based code to set development goals for the built environment. Form-based codes dictate the form and design of a building rather than the use of the building, as traditional zoning does. This gives planners a powerful tool in shaping and preserving communities, while also granting more freedom in the development of the interiors of projects.
- Form-based codes could be especially useful in more dense environments, where mixing of uses and walkability are key aspects of design. Additionally, a more focused review of building designs could expedite the permitting process, especially if design guidelines are well documented and supported by the community and private sector.
- Local policymakers should also ensure in-lieu fees incentivize the desired actions for the private sector. Under some scenarios, in-lieu fees may limit the feasibility of projects with 10 housing units or less, as noted by BAE.
- **Primary Advantages:** incentivize density with little direct cost to local jurisdictions, responsibly promote density in areas best suited for higher intensity uses, implementation already underway, form-based codes can expedite permitting

Increase Certainty and Consistency in Design Review

- Increasing certainty and consistency in design review are likely two of the most important reforms that jurisdictions could make to **improve not only the amount of housing that gets approved, but also the perception of the process** within the private sector. While perception is not necessarily tangible, if the process is viewed as more certain and predictable, more significant and transformative projects may be able to move forward, as explained in prior sections regarding the costs of current regulation.
- Increasing the implementation and effective utilization of objective design standards is one particularly promising policy pathway South Coast cities could focus on to increase certainty and consistency in their design processes. Reforms could include **setting more robust objective design standards, while also expanding the scope of applicable projects**. Additionally, local jurisdictions could generate **pre-approved criteria or design elements** that can be used by housing developments, reducing the scope of what is likely to be considered under design review and speeding the approval process.
- Another approach that emerged through discussion with local stakeholders was **creating a third-party appeals process** for rejected projects, those granted approval in one step of the process but not another, or projects where major design changes are required late in the planning or review process. This would be in addition to the typical appeals process via the planning commission and City Council. The goals of this process would be to provide a fresh set of eyes, and help provide outside context on projects for both developers and local regulators.
- The provision of additional pre-approved design plans or general guidelines may also help provide clarity for housing developments, including smaller units and ADUs.
- **Primary Advantages:** incentivize development, reduce approval timeline and associated costs

Designate a Project Coordinator

- Across various discussions, stakeholders voiced that **expectations for a project could vary significantly** from each stage of review, individual reviewer or department, with major project changes sometimes occurring very late in the planning process.
- The inconsistent review process (across or within jurisdictions) **creates significant uncertainty for developers** and can add large cost burdens in the form of extended project timelines and project redesigns.
- To minimize these issues, **a single designated project coordinator could be assigned by local jurisdictions to shepherd the project through the entire review process from start to finish**. This coordinator would be empowered to help manage the planning and approval process and provide context and history on the project to various departments and review boards. Additionally, the coordinator could act as a consistent **point-person for the City and the developer** in regards to the project, taking a quarterback role in facilitating the approval of the project.
- The primary role of a project coordinator would be to see the larger picture, and work proactively with other local officials and developers to **resolve discrepancies and address conflicts**, acting as a sort of housing development ombudsman.
- Further, some stakeholders mentioned that it may be beneficial to include planning staff in design review and planning commission meetings to provide context and address technical concerns in an unbiased, non-confrontational way. This could be done directly or via the project coordinator role.
- A more limited, but similar, reform could include keeping the same planner tied to a project through the entirety of the approval process, including building and design review as well as planning commission meetings.
- **Primary Advantages:** reduce uncertainty and inconsistency, facilitate permitting of housing projects, provide a designated point of contact and reduce potential for conflict or misunderstandings between developers and public officials or board members.

Streamline the Approval Process

- As outlined in previous sections of this report, the patchwork of development guidelines in the South Coast makes it difficult for private sector stakeholders to easily transition knowledge from one project or jurisdiction to the next.
- Working to create a regional framework for approval and design processes is one policy pathway that could help streamline approvals across the region. This is not to suggest that local jurisdictions should cede control to a regional entity, instead local policymakers could work to **align development goals across the region**, and ensure that local codes and restrictions are at least somewhat more consistent in order to make the transition from jurisdiction to jurisdiction more manageable.
- During discussions with local stakeholders, concerns were repeatedly raised regarding the number of meetings held on projects, and lengthy wait times for responses to questions, outstanding items and issues with proposed plans. Under AB 330, the Housing Crisis Act of 2019, cities and counties are prohibited from conducting more than five hearings if a project meets objective design standards and is deemed complete (see next bullet). All of these serve to increase the overall timeline of the project, thereby increasing costs. As a result, local policymakers may choose to **set more steadfast limits on the number of meetings that can be held regarding a project, as well as setting definitive, and reasonable, timelines for responding to applicants' queries**.
- Local stakeholders also mentioned the repeated use of the "incomplete" designation in the design process when such a designation seemed unnecessary (such as minor additions to project plans), effectively prolonging the start of the review process, potentially for months. In the interest of advancing new housing, local jurisdictions in the South Coast should seek to ensure that the "incomplete" designation is reserved for truly incomplete plans that are missing substantive information that is critical for the approval process, with the criteria needed to be deemed complete clearly documented and available.
- Local planning departments may also offer straightforward checklists that can be used for minor projects, such as small residential additions or alterations, or even pre-approved ADU designs. These checklists could provide both a simpler and more expeditious process for residents, while also reducing the time required for planning officials to review and process these requests.
- While these steps could all help with streamlining the approval process, they will likely require an intentional shift in mindset. In fact, perhaps the most elusive policy pathway identified repeatedly through RCG's research was the need to **shift towards a mentality focused on actively working to getting projects approved (i.e. finding ways to "get to yes")**, from what several private sector stakeholders viewed as a legacy of efforts to see projects delayed or denied. Of course, this approach reflects historical local leadership and, ultimately, underlying community support (or lack thereof), as highlighted later in the discussion of the importance of public outreach and coalition building. However, steps to align the process across jurisdictions, ensuring timely responses, reducing the number of meetings/approval steps and limiting the scope for which project plans can be deemed incomplete all represent practical steps that could certainly help streamline the process to the extent that local policymakers are open to a change in approach—a shift that appears to be already underway, as evidenced by recent policy changes highlighted previously.
- **Primary Advantages:** reduce approval timelines, create a more aligned regional approach to the permitting and approvals

Property Conversions, Adaptive Re-use, Up-zoning

- While somewhat more limited in scope compared with other policy pathways, allowing for easier **conversion of under-utilized or obsolete commercial properties** may increase the stock of available housing, while rejuvenating areas of the region, with limited new costs for local jurisdictions. Initiatives of this nature have been successful in other California cities, and while vastly different from the South Coast, Los Angeles specifically found success with the 1999 Adaptive Reuse Ordinance. In fact, the Terner Center at UC Berkeley noted in a November 2021 report that the Los Angeles ordinance was credited with creating more than 14,000 new units of housing. In a separate paper from 2015, researchers at the Terner Center also found that adaptive reuse projects can often speed the approval process, especially in localities where development is tightly regulated.
- One possible approach to accomplish this goal would be to **provide residential overlays** in areas where housing would be particularly beneficial. Overlays are zoning tools used to crease special zoning districts on top of existing zones, allowing for either enhanced incentives, different land uses or separate design standards. It would also be important to factor equity and access into these overlays and ensure that areas prime for conversion are suitable for housing development.
- South Coast jurisdictions could also incentivize adaptive reuse and conversion via streamlined approval processes, reduced parking requirements for new projects, and ensuring that building code requirements for reuse are clear. This is especially true as commercial conversions can prove difficult and expensive. However, if a building is well-suited for adaptive reuse or conversion, these developments can have **expedited development timelines**, and in some cases can reduce costs if more of the existing structure can be reused. Additionally, these projects can help jurisdictions meet climate-related goals, by

reducing emissions and environmental impacts of some ground-up construction.

- Additionally, statewide Assembly Bill 447 (2021) expanded the type of projects that can utilize the Low Income Housing Tax Credit (LIHTC), specifically many reuse and conversion projects.
- **Primary Advantages:** limited costs for cities, expedited development timelines, revitalization of areas of focus

Revitalization of Downtown Areas

- The South Coast is host to a handful of vibrant urban cores, most notably in Downtown Santa Barbara, such as the Historic State Street Plaza. **Additional housing supply should take advantage of the walkable nature of these areas** and could have the added benefit of **supporting local businesses through increased foot traffic and an expanded customer base**. Many of the local municipalities in the South Coast made changes to local zoning to incentivize density in recent years, but often other hurdles (ranging from the challenges of assembling lots to inclusionary zoning requirements) keep significant projects from moving forward.
- Additionally, in the wake of the pandemic, there may be further opportunities in urban retail corridors for further revitalization.
- Many people also have misconceptions of what projects of certain densities in downtowns may look like. Local jurisdictions should strive to ensure that the public is educated on what responsible density options can look like, and real-world examples of buildings with the same density. Some jurisdictions already have systems like this in place.
- **Primary Advantages:** increased density in areas with prime economic and infrastructure advantages

General Zoning Reforms

- The recommendations in this policy pathway are broader in scope and serve more as examples than hard-and-fast policy actions. Each jurisdiction has different codes, height requirements, parking requirements, restrictions and design elements, which cannot all be covered here. However, South Coast jurisdictions are encouraged to **think outside of the box in terms of meeting development goals** (and state RNHA requirements), **while reducing the costs associated with new housing**.
- Examples of possible reforms include:
    - Reduce parking requirements where, and when, possible. Especially in areas that are transit rich, walkable and bikeable, which can all reduce the need for one parking spot per unit.
    - Provide flexibility in private open space requirements
    - Allow developers to count roof decks as outdoor space in-lieu of private balconies
    - Allow nearby parks to count as open space for projects that pay additional impact fees to fund park maintenance
    - Support funding for affordable housing developments through special taxation districts
    - Transfer development rights from historic buildings to other buildings
- In specific geographies within the South Coast, educational assets create strong demand for housing, and new supply has been limited in recent decades. As a result, **the region should emphasize increasing density near, and with access to, educational assets, including UCSB and City College**. While the University and City College need to play a key role in regional housing solutions, it is also necessary to recognize the significant economic benefits these institutions provide. Other areas primed for increased density also include downtown corridors, areas near major employers and sites with access to public transportation options.
- Regional policymakers should also work with the Coastal Commission to better **ameliorate issues regarding parking requirements, access and the development of Local Coastal Plans that address the affordability crisis**. In recent years the Coastal Commission has softened many more restrictive policy stances to facilitate the development of housing, such as the approval of a density bonus in San Luis Obispo and ADUs in San Diego. South Coast jurisdictions should seek opportunities to leverage this to add critical housing where possible.
- **Primary Advantages**: create creative zoning requirements that reduce cost burdens for housing projects, can be implemented quickly, increase regional cooperation on critical issues

Prefab and Off-site Construction

- In many circles, the phrases “mobile home” or even “manufactured housing” may evoke negative images. However, the modern manufactured and prefabricated housing industry has evolved dramatically in the past few decades, especially in recent years. Indeed, these forms of construction can provide significant cost benefits for housing developments, increasing the feasibility of projects. This construction method includes homes constructed entirely offsite and then transported to the construction site, or homes assembled from prefabricated “parts” produced in factories elsewhere and then assembled onsite. There is an enormous amount of innovation and new technology underway in this segment of the construction industry, with significant potential to reduce costs and increase the production of housing ranging from single family homes and ADUs to multi-story apartment buildings.

- Local policymakers should ensure that the use of prefab and off-site construction practices are allowed, and practical, if not even encouraged, in the South Coast.
- **Primary Advantages:** lowers the cost of housing, innovative policy option, opportunities for preapproving plans and designs

Support Regional Housing Authorities and Non-profit Developers

- Local housing authorities and non-profit housing developers can provide an **invaluable service for the region in producing affordable units, especially for low- and very-low income households**. In the near-term, the development of these units by housing authorities will remain critical for supplying meaningful amounts of housing for these income groups. As a result, South Coast governments should remain committed to supporting and encouraging the work of these organizations. To that end, local jurisdictions should ensure that housing authority projects **receive adequate support through the review process and expedited approvals with minimum necessary review wherever possible.**
- It should also be noted that these developments are often particularly dependent on often limited and competitive state and federal funding, for example through the LIHTC program. Additionally, as mentioned previously, the California Infrastructure and Economic Development Bank is now authorized to provide funding for certain affordable housing projects and may be another potential resource.
- Considering the costs of construction, communities should also seek opportunities to work with local housing authorities and non-profit developers to find pathways for funding and supporting workforce and middle income housing, which is particularly difficult to produce without subsidies and substantial incentives. This could possibly be accomplished through zoning changes, density incentives, creative uses of public land or other methods that help to reduce costs and expedite the review process.
- **Primary Advantage**: supports the development of housing that would likely not be built in the current environment

Public Outreach and Coalition Building

- Whether perceived, historical or actual, communities in the South Coast are commonly viewed as anti-growth. There are a variety of reasons for this sentiment, described earlier in this report, but what appears certain is that in addition to the many barriers to development and regulatory hurdles, this view represents a considerable additional obstacle for prospective developers.
- As a result, a key piece of any policy strategy in the South Coast should include public engagement and outreach. This includes educating the public on many of the concepts outlined in this paper, including the vast undersupply of housing in the region, the consequences of this undersupply including long commute times and loss of diversity, the significant barriers to the development of housing, the potential economic and fiscal benefits of building more housing, and the critical need for a shift in mindset and policy approach.
- While this is, of course, far easier said than done, it is critical to **engage the public** and make it clear why there is a need for broad-based housing policy reform and what the benefits would be for the community, including increasing the vitality of the region and supporting diverse and vibrant communities.
- Local policy stakeholders should also recognize the importance of forming coalitions with state regulators, which oversee development in the South Coast, including the Coastal Commission and HCD, as well as outreach and open dialogue with community organizations historically opposed to new development.
- Private sector developers should work to expand outreach and gain insight from local communities, as well as build trust in the process and in the project. Listening to local ideas and feedback may also provide for easier, and more expeditious approval processes.
- Public officials should seek to develop partnerships with private companies and educational institutions, to garner support for new development in local communities and streamline the process to develop housing and student dormitories.
- **Primary Advantages:** boost public awareness and support, potential to ease progress of future policy reforms, allow for more significant housing developments

With these policy pathways, many of which were highlighted repeatedly by local stakeholders through the course of RCG's interviews, RCG hopes to offer South Coast housing policymakers a menu of ideas and potential options that can hopefully begin to address the vast undersupply of housing in the region, and the affordability crisis that has ensued. While no policy is likely to be a cure-all, and there are many hurdles in the way, a combination of various policies may provide enough incentive to tip the scales and begin to incentivize housing production and move the needle on affordability in the South Coast region.

IX. Conclusion

Throughout this report, RCG detailed the housing supply shortage following decades of underbuilding and the rapidly growing affordability crisis, which was only exacerbated by the surge in home prices amid the COVID-19 pandemic. While the regional affordability crisis currently affects almost all households in the South Coast, it is particularly notable that the greatest cost burdens and affordability challenges are concentrated among low- and-moderate income renter households, and especially households of color. These factors severely limit the number of workers able to live in the South Coast, and negatively impact the economic growth and socio-economic fabric of the region.

The scale of the problem is large and many decades in the making, and it is quite clear that there are no easy solutions. Not surprisingly, it will take make years to build enough housing to truly begin to balance the existing underbuilding gap. However, following a series of interviews with local stakeholders, in both the public and private sector, RCG identified numerous potential policy pathways that are intended to help meet the goals of beginning to expand the supply of housing in the South Coast and supporting increased housing affordability in the region. Considering the many barriers to development and the challenges of the local regulatory regime, it will be critical for local jurisdictions to take a multipronged approach, utilizing a wide range of policies and strategies. While some would undoubtedly require a more substantive change in mindset and increased community support for new development, RCG believes that even a series of more modest policy changes, in aggregate, could translate to significant strides in terms of incentivizing new housing development.

Beyond the social benefits of more affordable housing of all types, the economic impacts of constructing more housing are also large, both for the local economy and local governments. In fact, the construction of just 100 single family and 400 multifamily homes would have the combined impacts of adding 1,850 jobs, $118.6 million in labor income, $225.1 million in economic impact over the lifetime of the project, and an estimated $4.6 million in local tax revenue. With these figures in mind, closing the housing gap in the South Coast would provide enormous economic impact for the region, while providing further benefits through more affordable housing options throughout the region.

A recurring theme throughout this report is the need for a regional approach that recognizes the scope of the current issue and the regional nature of economic, demographic and housing market dynamics. To this end, using an approach of near-term action and long-term planning may be useful. Near-term action could include policy pathways that reform the most impactful housing policies and codes, engage local stakeholders, directly reduce time and costs for developments where possible, and incentivize or streamline the development of projects that produce affordable and workforce housing. Long-term planning would then involve working together with neighboring communities to create and promote impactful policy solutions to bolster housing development across the region (especially in urban areas and those neighborhoods near major job clusters and education assets), all with the goal of steadily increasing the supply of housing and supporting affordability. Ultimately, to make progress on housing supply and affordability, using a regional, all-of-the-above style approach, policymakers and private sector stakeholders will need a continued open dialogue on what strategies are most politically feasible, and financially impactful, in promoting the development of more housing in the South Coast.