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THE CURRENT: Cities need more housing. ADUs can help.

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PITA: You're listening to The Current, part of the Brookings Podcast Network. I'm your host, Adrianna Pita.

While some measures of inflation have eased, housing costs remain high, with rising home buying costs, outpacing wage growth, and many renters, especially lower income earners, paying out unsustainably high proportions of their monthly income. President Biden has been highlighting housing costs on the campaign trail, and federal policy has a key role but many more factors affecting housing markets and real estate development are determined at the local and regional level.

So we have with us here today, Jenny Schuetz, Senior Fellow at Brookings Metro, and Gary Geiler, assistant director of the Development Services Department for the city of San Diego. Jenny and Gary, thank you so much for talking to us today.

SCHUETZ: Thanks for having us.

GEILER: Thank you.

PITA: Jenny, maybe I can ask you to set the scene for us, give us a little context. Over the last few decades, housing supply has just consistently failed to keep up with demand. You know, not just in the rock star cities. It's been leading to persistent shortages all across the country. What are some of the factors that have been driving that?

SCHUETZ: Yeah, there are a bunch of both market factors and policy factors that play into this. It's important to remember that coming out of the Great Recession, we were essentially in a housing hangover. We stopped building homes altogether for about four or five years. The construction industry shrank, so we lost companies, we lost a bunch of construction workers, including, we didn't have people going into the skilled trades at earlier stages. The industry is still trying to ramp back up. Things like rising interest rates certainly haven't helped matters. And the construction industry in the U.S. has actually seen declining productivity for something like the past 50 years, just really unusual compared to other industries and certainly doesn't help.

But on top of those market factors, we have some policy factors, including a lot of local governments have made it really hard to add housing, especially in the places that people most want to live. So the cities that have the best paid jobs, fast growing companies, places that have tons of amenities, great weather, beaches -- you can see where I'm going here -- coastal

California is sort of the epitome of the problem, but we've really seen this in cities across the country, not just the high-priced places like Seattle and Boston, New York, but we're seeing this spill over now to places like Austin and Nashville and Denver that historically have been pretty affordable, but are really starting to feel that pinch now.

PITA: So, let's get into how different cities and regions are trying to tackle some of this. Gary, at the end of the year, San Diego had just passed this whole package of housing reforms and the city, in fact, just won an award, the Ivory Prize for Housing Affordability, for some of that work. Tell us a little bit about what the city is doing and specifically about this program that won the prize.

GEILER: Yes, well the city of San Diego has been proactive and pro-housing for several years. I like to say we're a pro-housing city before the state of California came up with that designation. We've looked at everything in terms of reducing process levels, eliminating discretionary reviews, environmental reviews, hearings, appeals, those things that make projects take longer. We're making more projects ministerial, by-right approvals, and taking time out of the equation. Streamlining and expediting housing approvals, granting incentives and waivers to development regulations and then coming up with unique housing programs. We have a lot of density bonus programs, be it for affordable housing, senior housing, student, foster youth, micro-unit, veterans, homeless. So, we thought about the ADU program, which was very robust to add to this, an affordable housing density bonus program for building ADUs.

PITA: And tell us what ADUs are?

GEILER: Those are accessory dwelling units. So this came out of a state bill that wanted to mandate local jurisdictions to incentivize construction of affordable accessory dwelling units. So this would allow for unrestricted ADUs for every ADU that is deed-restricted. And those deed restrictions can be 10 years or 15 years depending on the affordable income level. So we have low, very low, and moderate income level ADUs being built on properties throughout the city.

PITA: ADUs, when we look at some of the targets that cities are trying to hit, the number of units that they're trying to build, relative to the number of new units that they're trying to reach, ADUs seem like sort of a smaller scale improvement, right? ADUs, it's when single family homeowners can build one new unit, like, you know, a unit over a garage, that kind of thing, mother-in-law suites, that used to be called. So, but why are they important and how do they fit into some of these larger plans? Gary, why don't you tell us about how you're fitting them into some of those larger plans at San Diego and then maybe Jenny, you can broaden us out.

GEILER: Yeah, well, unique in San Diego, we expanded it to all zones that allow residential. So it's not just that traditional single-dwelling unit zone that allows one additional ADU. And it fits in with other housing as it really targets infill and provides affordable in neighborhoods that have not traditionally been involved in affordable housing production. The affordable ADU bonus program has opened up the market to homeowners and small-scale developers. Typically, affordable housing density bonus projects are mid-rise and high-rise, and they're only in certain parts of the city because they only make economic sense in those areas. So by allowing this in multifamily zones, we found that a lot of larger multi-dwelling unit lots, for whatever reason, might have been only zoned for two to four regular dwelling units. But with the accessory dwelling unit bonus program, deed restricting, additional ADUs, they're able to get six, eight, 12 on a site.

SCHUETZ: Yeah, and I think that's a really nice example of sort of the way that you can be creative with ADUs to use them in non-traditional ways. So typically, we've thought of them very much as a backyard cottage or a basement apartment in some place like DC. But what San Diego has really done is that essentially you can use underused land on any parcel of land in a residential area and add ADUs. And there's the incentive if you build a deed-restricted affordable unit, you get to build another market rate unit.

Most communities are still sticking with this is a technique to get more housing in single-family low-density neighborhoods. And that's important even as it is, right? Those are the places that it's hardest to add housing, but often where more people want to live than we have homes available. One of the real advantages to ADUs is that they don't take up a lot of land, so they fit in a lot of places. Because they're small projects, they're often lower cost to build, and they can be finished faster. So you can get a bunch of them online, even though each project is small, if you do enough of them, they can really add up.

And I will say that there's one other place that we looked at, West Hollywood, outside of Los Angeles, which has also allowed them in smaller multifamily properties. And that's a nice way to sort of bridge the gap and get them into a wider range of places.

PITA: So, is this what is often talked about as that sort of missing middle size housing?

SCHUETZ: It's definitely part of it. So, ADUs, townhomes, duplexes, just smaller apartment buildings. And San Diego's program, Gary can tell us a little more, actually allows I think maybe four to six units. So it's ADUs, but they're built together as a structure. So you can almost build something that's kind of like a smaller apartment building under the ADU ordinance, which is really creative and clever.

PITA: Gary, did you have anything you wanted to add about that?

GEILER: Yes, so in the sustainable development areas, those transit priority areas along those routes where there's bus transit opportunities, it is unlimited. So the number of additional ADUs, there's no specific limit. It's just limited by the maybe the maximum FAR, the structure height requirements. We're talking about these larger multi-dwelling unit zone properties. Aside from the setbacks, which are reduced to four feet on the side and the rear, the ultimate building last allowed is be no different than what a single family or a multiple dwelling unit property would be. So the primary difference is only just the number of units on that site.

PITA: Has this program started being built yet or is this still in the planning stages?

GEILER: No, it started in 2020. And in general, ADU is, going back to how this has helped in part of our housing, they've been about 20 % of our building applications for housing in general. Starting back in 2020, 1,000 ADU permit applications, and we've increased at least 500 every year. So we've got over 2,000 last year. And the ADU bonus program started in 2021. And what we've seen is over 200 projects within this program. So these are ADUs that would not have otherwise been built without this bonus program.

PITA: Nice. Jenny, why don't you tell us a little bit about your work looking at Los Angeles and West Hollywood and what they've been doing there.

SCHUETZ: Yeah, the LA region has taken a slightly different approach to encouraging ADUs that are affordable to low-income households. So the city of Los Angeles has this

accelerator ADU program, which identifies homeowners who already have an ADU on their property and then incentivizes them to rent out to a low-income renter. And the city essentially covers the cost of the operations. So that's a nice way to use the existing stock, it's very fast if you can match people up and you don't have to have an upfront subsidy to build. Pasadena, West Hollywood, LA County have tried to incentivize new development of ADUs, so providing upfront grants and subsidies as well as operating costs.

So, there are a number of different ways you can approach this. I think what's important to remember is that these are essentially relying on voluntary participation by homeowners, so that's been really the limiting factor. Homeowners become first developers and they become landlords, and in particular some homeowners have been very careful about taking on the extra strings that come with taking of either federal or straight subsidies. So, you know San Diego has had a slightly different approach. There are these sort of agreement terms limiting the amount of time that you're going to make this available to low-income households, but because there isn't a direct subsidy attached to it, it's more flexible on the homeowner side.

PITA: What are some of those the strings coming attached that that might be of difficulty for people?

SCHUETZ: Yeah, so part of it is if you take federal subsidies, then you're subject to the income requirements. So for instance, the tenant has to be income-certified. The cities are doing that work, so they will check the income of the tenant year after year to make sure that they still comply. But that is a step that you have to go through in the process. Federal housing vouchers mean that you have to have the unit inspected to make sure it meets quality requirements. Many of these are brand new ADUs, so it's not that they can't pass that hurdle, but somebody has to come through with a check board and make sure that you fit everything. And there's just some anxiety about, what are the rules, do homeowners understand what the obligation is, and in some cases homeowners are just worried, what if this doesn't work out, or what if I get part way through this and I decide I want to take back the ADU and use it for my personal use, am I allowed to do that? So it's a more complex program.

PITA: Jenny, you had also written a piece where you talked about, the headline of it was great: "Passing the pro-housing legislation is only the first step in getting more affordable housing." Implementation is, of course, this whole other set of challenges that we're talking about here. Gary, since this program has been underway now for a few years, what can you tell us about any of those challenges that you encountered as you were rolling this out? What are some lessons that you've learned and how you're going to continue going forward?

GEILER: Excellent question. Implementation is key. A lot of jurisdictions pass these rules and say, okay, we comply with the state in terms of this rule, but they don't really promote it. They don't educate the public. They don't sit down with the designers and stakeholders and really look at how this program will work. We were very proactive every year to look at our land development code and update it in regards to housing regulations, including ADUs. What's working, what's not working? And let's modify it to get more housing. And as we did that, we saw increased interest in ADU projects. So it is important with implementation, not only with the program, but the process levels as well. Cities need to make this a priority. Our mayor has executive orders for 100 % affordable housing projects to be reviewed within 30 days. Complete Communities, which is another program, kind of unlimited density and larger FARs, get those done within 30 days. When the housing community and developers and building industry hear

that there's certainty in the review process and the timelines and they see that a city is being proactive and being pro-housing, they respond. We've received probably 2,300 new affordable units last year alone and we had over 9,000 new homes, which was an 80% increase over the prior year and the highest at least going back to 2005. So it's really important to have an implementation program in place, an education program in place and meet with stakeholders, homeowners, designers, builders, everyone.

PITA: Jenny, do you have any other good examples from LA, any other cities that have started tackling programs like this and where they've encountered successes or failures?

SCHUETZ: Yeah, so I think there are a couple of kind of general principles that cities should remember. One is to think about all the kinds of housing that you are building or should be building. There's sometimes a tendency to identify one program that's the signature program of the mayor and put all of your eggs in that basket. But we need more homes of lots of different structure kinds. We need rental, we need homeownership. And so making sure that you're looking at your regulations to be sure that all of those kinds of things can be built. I love that Gary has pointed out a couple of times the process. Make this a transparent, straightforward process that's fairly short. Everybody understands it. Things can go through quickly. That makes it quicker and it makes it cheaper and the housing comes online and can serve households faster. Ultimately, this is a question of political will. The local elected officials who want to get housing built will figure out how to get housing built. And the local governments that don't really want to do this and are getting dragged along by the state will find endless ways to block it. So, if you get yourself some elected officials and some good planning staff who really want to make this happen, they're going to figure out how to make it work.

PITA: Gary, why don't you close us off, letting us know sort of what's next. What are some of your longer-term horizon plans for what to do in San Diego?

GEILER: Looking at more housing opportunities and just constantly reevaluating the programs that we have in place and identifying the need to make these a priority within the review process, educating our staff and the public on how do they make these work. It's an excellent point that staff has to be aware of what needs to happen with these projects, so as they're trained and they know that the city is a pro-housing city, they do the best they can to make these work.

PITA: Thank you Jenny and Gary very much for your time today and we'll see you next time.