



THE CITY OF SAN DIEGO
Manager's Report

DATE ISSUED: September 11, 2003 REPORT NO. 03-187

ATTENTION: Land Use and Housing Committee
Agenda of September 17, 2003

SUBJECT: Residential Hotel Working Group Recommendations

SDHC REPORT NO.: LUH 03-007

SUMMARY

Issue: Should the Land Use and Housing Committee adopt the Residential Hotel Work Plan as proposed by the Residential Hotel Working Group?

Recommendation: Adopt the Residential Hotel Work Plan (Work Plan) as outlined in Attachment 1 and direct staff to: 1) proceed with the preparation of amendments to pertinent ordinances and other documents; and, 2) return to the Land Use and Housing Committee for their review.

Fiscal Impact: Implementing the Work Plan as described in this report would result in costs related to increased staff resources, including costs to the Housing Commission to administer tenant relocation assistance and additional staff time for preparation of ordinance amendments.

Affordable Housing Impact: If implemented in its entirety, the Work Plan should result in an increase in the supply of Residential Hotel units in San Diego.

BACKGROUND

Single Room Occupancy Hotels (SRO) or Residential Hotels provide some of the city's most affordable housing inventory. Traditionally, this housing stock has served the most vulnerable and lowest income residents of our city, including those on a fixed income such as seniors and disabled individuals. Although SROs continue to serve these populations, the City of San Diego's continued housing shortage has resulted in a shift in the demographics living in SROs. The shortage of housing meeting the needs of low-income individuals has been impacted hardest by the pent-up housing demand throughout the San Diego region. As a result, a recent survey showed a high percentage of students and working individuals living in SRO units.

The City of San Diego has had some form of SRO regulations on the books since 1977. However, it was not until 1985 the regulations took a form similar to those the city administers today. The ordinance has been amended several times since that date, most recently in 2000. However, the primary features of the ordinance have remained consistent. The most significant of these features are the requirements that Residential Hotel rooms be replaced upon conversion or demolition and a requirement to provide relocation assistance to tenants residing within the property upon its conversion, demolition, or rehabilitation.

The legal environment within which Residential Hotels are regulated have changed in recent years and continue to change with currently pending litigation and state legislation. Recent legal interpretations of SRO ordinances have prompted a reexamination of the existing Municipal Code provisions governing the loss of SRO rooms. As a result, a number of modifications to the Ordinance were proposed in December 2002 in the form of an Emergency Ordinance. Although the ordinance was not approved, the need to amend the city's regulations remains urgent.

In consideration of the current economic environment and worsening deficiency of low-income housing, it has become apparent that simply amending the existing SRO regulations will not ensure a sufficient stock of SRO rooms. For that reason, city and Housing Commission staff recently convened a Residential Hotel Working Group to discuss the development of a comprehensive work plan to address the need for both construction and preservation of Residential Hotels. Working Group participants represent many different interests in the SRO discussion, including community representatives, for-profit and non-profit developers, advocates, social service providers, and homeless service providers. Staff from many city departments and agencies, including the Housing Commission, Centre City Development Corporation, Development Services, Planning Department, City Attorney, and the Water Department provided support for the meetings.

DISCUSSION

The proposed Residential Hotel Work Plan proposes a three-pronged approach to providing safe, sanitary, and stable housing for populations living in SRO Hotels. The plan would include an aggressive new construction program coupled with targeted rehabilitation of existing SRO housing stock and sufficient relocation assistance for tenants displaced from SROs to ensure their successful, long-term relocation to new affordable housing. Despite differing opinions on the issues surrounding SROs, the Working Group has found consensus on most of the recommendations found in this report.

Implementing the Work Plan will necessitate numerous amendments to the city's Municipal Code. The plan will be most effective if all elements of the Work Plan were adopted concurrently. The Residential Hotel Work Plan and the proposed amendments to the Municipal Code are described further throughout this report. A summary of the recommendations is in Attachment 1.

Residential Hotel Inventory and Definition

It is recommended the ordinance establish a clear mechanism for measuring and setting goals. In order to accomplish this, it will be necessary to establish a base inventory of existing Residential Hotels so future progress can be measured against today's inventory level. The base inventory established initially is recommended to serve as a threshold for purposes of monitoring, setting goals, and to trigger some regulatory requirements. The Working Group has recommended a method for establishing the base inventory by utilizing the City of San Diego's Transient Occupancy Tax (TOT) records, which is described in Attachment 2.

Over time the inventory is expected to increase through the construction of new Residential Hotel housing stock. The construction of new units would be closely monitored and counted to track the progress towards goals and build on the established threshold. A further discussion of the inventory is also provided in Attachment 2.

Properties included in the established inventory would be further reviewed by the Housing Commission to determine whether they contain any Residential Hotel Rooms. As such, the definition of a Residential Hotel Room is of equal or greater importance as that of a Residential Hotel. While the established inventory of Residential Hotels will serve as a pool of properties that should receive further review, all regulation will be tied to the Residential Hotel Room. The definition of a SRO room or Residential Hotel Room should acknowledge the stock traditionally serves as a primary residence for low-income, single-person households. As such, the length of tenancy would exceed 30-days and is often a year or longer. In addition, a SRO would offer rents affordable to a low-income person. These elements should be reflected in the definition of a Residential Hotel room. Furthermore, these factors would trigger the application of any regulation.

Tenant Relocation Assistance and Replacement Housing

The issues of tenant relocation assistance and replacement housing have consistently been the most contentious elements of any discussion regarding SROs. Surprisingly, the majority of the members have come to consensus on these critical issues. A summary of the recommendations is provided below and a fuller discussion is provided in Attachment 3.

Any new or existing Residential Hotel that has submitted an application for conversion, demolition, or rehabilitation of the property should be referred to the Housing Commission for further review. The Housing Commission would then work with the property owner to determine the number of Residential Hotel Rooms in the property.

Relocation assistance would be required for any long-term, low-income tenant displaced by the conversion, demolition, or rehabilitation of the Residential Hotel. The Working Group has recommended relocation assistance be calculated as the *difference between the household's ability to pay and the new rent for a period of 12 months*. In addition, Working Group members recommend tenants be provided with financial assistance for moving expenses. They have recommended this assistance again be based on Relocation law which sets this payment, dependent upon whether the tenant has furniture or not, at \$575 or \$375 respectively.

The Working Group has recommended one exception to the requirement that relocation assistance be provided. In the case of rehabilitation of a Residential Hotel, property owners could be exempted from providing relocation assistance if they provide comparable housing. This proposed exemption is described further in Attachment 3.

The purpose of a requirement that property owners provide replacement housing is to enable the city to minimize impacts to residents being displaced and ensure sufficient housing is available when Residential Hotels are removed from the market. However, if the market is able to provide for sufficient new housing without regulation, replacement requirements may be unnecessary.

The Working Group has proposed a one-for-one replacement requirement; however, it would only be enforced if the total number of Residential Hotel rooms dropped below the threshold described previously in this report. It is recommended the construction of new Residential Hotels Units be closely monitored and reported to the City Council annually. Under this proposal, staff would report to the City Council annually on the level of the threshold and the total number of rooms in the inventory. If the number of rooms was reported to be below the threshold, the Council could enact the replacement provision in the ordinance.

New Construction

An integral part of the Residential Hotel Work Plan is the construction of new housing stock to meet the needs of low-income individuals. Existing zoning and development regulations appear to deter the developments of new Residential Hotels. As a result, the Working Group spent a substantial amount of time discussing how the regulatory environment could be improved.

Although Residential Hotel development can represent a viable and less expensive housing option for the city, projects should be developed only in areas that provide appropriate amenities, such as access to transit and commercial services. Further, the location of Residential Hotels should be weighed against impacts such as building scale, community impacts, neighborhood compatibility, and quality of life for SRO residents. Ensuring the development is located in the most appropriate location will provide the best opportunity for successful integration with minimal impacts to the surrounding neighborhoods. The Working Group agreed the most appropriate location to meet these goals is downtown; however, some locations along major transportation corridors outside of downtown are also appropriate.

In acknowledging the differences between the planned environments of downtown and other areas, the Working Group developed separate policies for zoning and development regulations within downtown and outside of downtown. A summary of the existing and proposed land use regulations is found in Attachment 4.

In addition to regulatory changes, incentives were discussed as part of the new construction program. Two development incentives have been identified as having the greatest benefits to the provision of new Residential Hotel stock: parking reductions and water and sewer fee reductions.

The Working Group has proposed modifications to downtown parking requirements and current policies pertaining to the calculation of water and sewer fees in order to provide incentives for the development of new Residential Hotels. Specific recommendations propose reductions in downtown parking requirements with findings for a deviation. No parking reductions are recommended outside of downtown without further study. The recommendations are described further in Attachment 5.

In addition to these incentives, during the recent hearing on the Affordable Housing Task Force recommendations, the Land Use and Housing Committee gave some consideration to changing the method by which the fee for expedited permit processing is calculated. Given direction, staff will explore this incentive further.

Affordability Restrictions and Rehabilitation

Current SRO rents are approximately \$500-\$750 per month. By Department of Housing and Urban Development (HUD) standards, these rent levels are affordable to a single-person household earning between 45 percent (very low-income) and 75 percent (low-income) of the area median income. Rents are typically more affordable in older housing stock than new housing stock. There is a concern as older housing stock is eliminated; all Residential Hotel stock will be too expensive for lower income persons. It is anticipated rent levels for new market-rate Residential Hotel stock will always be limited through market forces by the next tier of housing, the studio or efficiency unit. The assumption is that given the ability to pay, the majority of tenants will choose the more expensive studio unit that has a higher level of amenities. This market reaction, in turn, limits the amount a Residential Hotel property owner can charge for rent. However, if market trends continue, rents in all housing types will continue to escalate. This would result in pushing Residential Hotel rates out of reach for low-income tenants.

One way to address these concerns is to apply inclusionary housing requirements to new Residential Hotel development. Many Working Group members have recommended the inclusionary housing requirement that all projects provide 10 percent of the units at 65 percent of area median income be implemented for Residential Hotels. The current rent level, as established by HUD for a one-person household, is \$684 per month.

Another factor to be considered is current rent restrictions required in Living Units projects. The downtown Living Unit regulations require 100 percent of the units be restricted at rent level affordable to households at or below 80 percent of the area median income. The Working Group has not addressed a change to this policy to date.

While many of the Working Group's efforts have emphasized the ability of the private market to provide Residential Hotels, the ability to provide units at levels meeting the needs of the lowest

income individuals may not be possible without public subsidy. While the expanding supply of housing will benefit the overall market demand for this type of housing, it will be difficult to address the needs of individuals on fixed-incomes without significant resources for subsidy. Basic operating expenses on Residential Hotels may not allow for rent levels that address the housing needs of very-low and extremely low-income populations. While older housing stock can in part

address these needs, the public sector will necessarily need to assist in ensuring developers can bring the rent structure lower in new or rehabilitated buildings.

This issue may be exacerbated by the aging of existing housing stock. Many of these properties have existing or potential capital improvement issues that could ultimately result in their removal from the housing market. One significant example of this is city regulations dealing with properties with Unreinforced Masonry (URM) construction. These regulations will require many SRO property owners to invest significant unanticipated capital improvement dollars into their buildings to provide seismic reinforcement. The result could be property owners are motivated to convert or are forced to delay other needed improvements to the property resulting in unsafe or unsanitary conditions for the residents.

The public sector may be required to provide subsidy to property owners to secure this housing stock and to ensure it remains safe and sanitary for its inhabitants. Through a targeted rehabilitation program, existing stock in need of rehabilitation could be assisted in addressing minor capital improvement needs. This could be structured as financing in the form of a low or no interest loan or a grant. Dependent on the form and level of assistance, developers could be required to restrict rents in some or all units.

In considering ways to subsidize the efforts described above, the Housing Commission may wish to consider the reallocation of existing housing monies or the pursuit of new revenues. In considering the reallocation of existing resources, the benefits of Residential Hotels should be weighed against the need for other forms of affordable multifamily housing. It is believed there are some untapped funding sources that could be accessed for the purpose of subsidizing the construction and rehabilitation of SRO units the city is not fully accessing. It is recommended city and Housing Commission staff undertake a thorough investigation of revenue sources available, including public and private sources. Staff time could be dedicated to aggressively pursuing new revenues appropriate for the construction and rehabilitation of SROs and then target, in a systematic way, those resources that best align with the city's goals.

Naming the Use

A final issue of the Residential Hotel Working Group is what to name the subject housing stock. Traditionally, the stock has been called Single Room Occupancy Hotels. However, Working Group discussion has included concerns of public perception and the ability to access financing if the stock is called SROs. Other names have been considered by the Group, including Living Unit and Compact Urban Living Unit (CULU). There are also concerns local regulations should be complementary to state laws, which define Residential Hotels as an approved building type. A compromise of "Compact Urban Residential Unit" may be considered. In order to ensure consistency with State regulations, the definition of the use should include a reference to Residential Hotel.

Respectfully Submitted,

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Attachments:

1. [Summary of Residential Hotel Working Group Recommendations](#)
2. [Proposed Residential Hotel Inventory and Threshold](#)
3. [Proposed Relocation Assistance and Housing Replacement](#)
4. [Proposed Zoning and Regulatory Amendments](#)
5. [Proposed Incentives for Construction of Residential Hotel](#)