



THE CITY OF SAN DIEGO

## Report to the City Council

DATE ISSUED: November 18, 2016 REPORT NO. 16-097

ATTENTION: Honorable Council President Sherri Lightner and Members of the City Council

SUBJECT: CASTLEROCK/PLAYA DEL SOL INCLUSIONARY HOUSING, Process Five Decision

REFERENCE: [Planning Commission Report No. PC-15-070 \(Castlerock Amendment\)](#)  
[Planning Commission Report No. PC 13-083 \(Original Castlerock\)](#)  
[Planning Commission Report No. PC-08-151 \(Playa del Sol\)](#)

REQUESTED ACTION: Approve Inclusionary Affordable Housing Regulations Variance No. 1633600 by Ordinance allowing Pardee Homes to satisfy its inclusionary affordable housing obligation for the Castlerock Project (Project Nos. 10046 and 388889) by providing off-site affordable housing within its Playa del Sol Project (Project No. 4925), with a waiver of one required finding related to the Inclusionary Affordable Housing Regulations variance approval and a waiver of the requirement of a Planning Commission hearing and recommendation.

STAFF RECOMMENDATION: Approve requested action.

### EXECUTIVE SUMMARY OF ITEM BACKGROUND:

The request before the City Council is approval of a Variance to the Inclusionary Affordable Housing Regulations (Inclusionary Regulations) with a waiver of one required finding to allow the applicant, Pardee Homes, satisfy its inclusionary affordable housing requirements for the Castlerock project by deed restricting 42 dwelling units as affordable for-rent units, off-site, at its previously approved Playa del Sol project. The Castlerock development area, formerly within the East Elliott Community Plan area of the City of San Diego, has been annexed to the City of Santee effective August 1, 2016. The Playa del Sol development is located in the Otay Mesa Community Plan area.

The Inclusionary Regulations ([San Diego Municipal Code section 142.1301](#)), require an applicant to either pay an Inclusionary Affordable Housing Fee (Inclusionary Fee), or set aside at least ten percent of the total dwelling units within a development as for-sale affordable housing to targeted ownership households pursuant to [SDMC Section 142.1305\(a\)](#). An applicant may seek an alternative to the Inclusionary Regulations through a process entitled "Variance" subject to a Process Four Planning Commission decision pursuant to [SDMC Section 142.1307](#). Per [SDMC Section 142.1308\(a\) and \(c\)](#), the following six findings, including two supplemental findings required for a development that proposes to provide

affordable housing on a site different from the proposed project site and outside the community planning area, must be made to approve the requested Variance:

1. Special circumstance, unique to that development, justify granting the variance;
2. The development would not be feasible without the modification;
3. A specific and substantial financial hardship would occur if the variance waiver, adjustment, or reduction were not granted;
4. No alternative means of compliance are available which would be more effective in attaining the purpose of this Division than the relief requested;
5. The portion of the proposed development outside of the community planning area will assist in meeting the goal of providing economically balanced communities; and
6. The portion of the proposed development outside of the community planning area will assist in meeting the goal of providing transit-oriented development.

All of the above required findings can be made to approve the requested Variance with the exception of Finding No. 2: the development would not be feasible without the modification.

The request to be allowed to provide affordable housing off-site is in accord with the City Council's recent adoption of amendments to the Affordable Housing Density Bonus regulations to further incentivize the production of affordable housing in the City of San Diego (Ordinance No. O-20673, effective July 19, 2016). One of those amendments allows density bonus applicants to locate required affordable units off-site. Furthermore, Pardee Homes' request to be allowed to provide the affordable housing off-site at its Playa del Sol project site within the Otay Mesa Community Plan area would better support the Inclusionary Regulations than the payment of Inclusionary Fees, resulting in much needed affordable housing in the City of San Diego, and contributing to a more economically balanced community and transit-oriented development as explained in the Variance Analysis section of this report. Based on the construction schedule provided in Exhibit "A" of the San Diego Housing Commission's Letter of Support (Attachment 13), construction of the affordable units at Playa del Sol is anticipated to occur by no later than December 31, 2018.

#### Castlerock and Playa Del Sol Projects

The City Council approved the original Castlerock project (Project No. 10046) on September 16, 2013, and an amendment, affecting Unit 5 of the development (Project No. 388889), on August 4, 2015 (Attachments 9 and 10). The development will include 424 dwelling units with 5.3 gross acres of park area and designated open space on an approximately 203-acre site, formerly within the East Elliott Community Plan (EECP) area (Attachments 17 and 18). In accordance with an annexation agreement between the City of San Diego, City of Santee, Pardee Homes, and Padre Dam Municipal Water District (Padre), annexation proceedings began for the 117-acre Castlerock development footprint in 2013. Effective August 1, 2016, the Castlerock development has been detached from the City of San Diego and annexed to the City of Santee. The site is located north of Mast Boulevard between Medina Drive and West Hills Parkway. Surrounding uses include the Sycamore Landfill to the west, open space and Marine Corps Air Station Miramar to the North, single dwelling units to the east, and West Hills High School to the south (Attachment 1).

The City Council approved the Playa Del Sol project (Project No. 4925) on February 17, 2009. Playa del Sol is a residential development consisting of 1,578 condominium units within 16 multi-story structures, and recreational areas on a previously graded 45.97-acre site in Planning Area 6 of the Precise Plan in the Otay Mesa Community Plan (OMCP) area (Attachments 11 and 19). The site is located south of Del Sol Boulevard between Ocean View Hills School and Ocean View Hills Parkway (Attachment 2). On July 8, 2015, the Development Services Department approved a Substantial Conformance Review (SCR) for modifications to the project including a reduction of the residential units to 912 units (Attachments 12 and 20). Surrounding development includes single-family residential developments to the northwest and northeast, SR-905 to the south, a school bordering the site to the west, and vacant properties abutting the property to the east designated Open Space and Community Commercial (Attachments 2 and 4).

### Variance Analysis

Granting the Variance would allow Pardee Homes to provide off-site affordable housing instead of providing on-site affordable housing within the Castlerock development or paying Inclusionary Fees. An Inclusionary Fee may be paid in lieu of constructing the affordable units. The applicant proposes to deed restrict 42 dwelling units as affordable housing within the previously approved Playa del Sol project in Otay Mesa (Attachment 22). These 42 dwelling units represent 10 percent of the total dwelling units of the Castlerock project. The affordable dwelling units would be comprised of one, two and three bedroom units in the same proportionate unit mix/type, and of similar construction quality as the market rate units in Playa del Sol. The dwelling units would be for-rent, affordable to and occupied by households earning 65 percent or less of the Area Median Income (AMI) as determined by the United States Department of Housing and Urban Development (HUD). Pardee Homes will enter into an Affordable Housing Agreement with the San Diego Housing Commission (SDHC) should this Variance be granted. The SDHC has provided a letter in support of the subject Variance request (Attachment 13).

### **East Elliott Site:**

The majority of the EECF area consists of open space. City of San Diego public infrastructure and services including water, sewer, fire, and police for a residential community are not located nearby, and it would have been costly to extend those services to the Castlerock site. Therefore, the City of Santee's cooperation and support of the Castlerock development and annexation were essential to the feasibility of the project. An on-site multi-unit affordable housing component within the Castlerock development was initially considered; however, the applicant opted to agree to pay the Inclusionary Fee after analyzing the economics of providing that component on-site, and due to the City of Santee's opposition to a multi-unit development as inconsistent to its neighborhood character.

Providing on-site multi-unit affordable housing at Castlerock now would require a redesign, and therefore a permit amendment, as it is approved for 277 single-family residences and 147 detached multi-family units clustered on larger lots. If such an amendment were proposed, the applicant expects City of Santee opposition and potential lawsuits. The Castlerock project has been the subject of a California Environmental Quality Act (CEQA) lawsuit from concerned citizens in Santee. Further litigation would result in additional years of delay, and higher cost of homes. Feasible is defined as "capable of being done." All of the abovementioned factors combine to create an economic hardship and inability to implement

the project, and therefore the development would not be feasible with an on-site affordable housing component.

The applicant has the option to pay the Inclusionary Fees. The Inclusionary Fee is calculated based on the fee per square-foot in effect at the time the building permit application is filed multiplied by the aggregate gross floor area of all of the units within a development. With Castlerock's estimated gross floor area of approximately 1,528,724 square feet and the current Inclusionary Fee rate of \$9.36 per square-foot, Pardee Homes would be required to pay an approximate \$14.3 million. The Inclusionary Fees would be deposited in an Affordable Housing Fund for the construction of affordable housing dwelling units at an undetermined time and location.

According to a comparison of affordable vs. market rate construction costs provided in the San Diego Housing Commission's "Addressing the Affordable Housing Crisis" report dated November 25, 2015, the construction cost of affordable housing units is greater than market rate units. This difference is due to several factors including added costs associated with prevailing wage regulations, required sustainability enhancements, legal fees, rent reserves and operating reserves. The report includes the per unit construction cost of two affordable housing developments in San Diego: Imperial Apartments with an estimated per unit cost of \$324,127 and the Trolley Residential with an estimated per unit cost of \$441,597. Using a simple analysis based on these reported affordable housing construction costs, it can be estimated that the amount of Inclusionary Fee that would be due for Castlerock could support the construction of approximately 32 to 44 affordable dwelling units.

A required finding in approving an Inclusionary Regulations Variance is "the development would not be feasible without the modification." A finding cannot be made that the Castlerock development would not be feasible if Pardee Homes elects the option to pay Inclusionary Fees to satisfy its inclusionary affordable housing obligation for Castlerock. However, granting of the Variance to allow the construction of off-site affordable housing at Playa del Sol would result in the construction of 42 affordable dwelling units at a known location in close proximity to supportive land uses including services, employment centers and transit opportunities as described below.

#### **Otay Mesa Site:**

The OMCP acknowledges that affordable housing opportunities are needed to ensure a diverse mixture of incomes and households in Otay Mesa (page LU-16). The transfer of affordable housing from Castlerock to Playa del Sol would be consistent with OMCP's policies and recommendations of creating workforce housing near transit lines and major employment centers (page I-5), providing housing affordable to all income levels, and encouraging development of affordable housing (page LU-20). The provision of affordable units at the Playa del Sol site is also consistent with the San Diego General Plan Housing Element Policy HE-B.5, which states "emphasize the provision of affordable housing in proximity to emerging job opportunities through the City of San Diego" (page HE-48).

The applicant is proposing off-site affordable dwelling units within the Playa Del Sol project in Otay Mesa, which is the hub of industrial and manufacturing operations existing in south San Diego and the border region. This is an approved multi-unit residential complex of 912 to 1,578 dwelling units located within Planning Area 6 of the Precise Plan area in the Northwest District of the OMCP area. The Vesting Tentative Map for the Playa del Sol project was deemed complete in 2002, prior to the adoption of the Inclusionary Regulations in 2003.

Therefore, the Playa del Sol project is not obligated to pay an Inclusionary Fee or provide affordable housing. Furthermore, the Northwest District is almost completely developed and as a result, there are limited opportunities to provide affordable housing. The provision of for-rent affordable dwelling units at this location would meet the intent of the Inclusionary Regulations better than the payment of an Inclusionary Fee, implements the residential objectives of the General Plan and OMCP, and as described below, contributes to providing an economically balanced community and transit oriented development.

According to the OMCP, the median household income in Otay Mesa based on the 2010 Census data is \$41,900 (page LU-16), with 50 percent of households' earnings in Otay Mesa at or below the AMI (page LU-19). Obtaining shelter in an affordable "for rent" unit is less expensive than obtaining shelter in an affordable "for sale" unit, since the low income buyers generally need to accumulate a higher down payment to purchase a "for sale" unit, compared to the rental deposit required of low-income renters. The 42 affordable dwelling units would be for-rent affordable to households earning 65 percent or less of AMI. The affordable dwelling units would integrate into the Playa del Sol development, be of similar construction quality, unit type and bedroom count as the market rate units. These units would provide alternative housing options to the existing market rate dwelling units in the community, and thereby contribute to providing a more economically balanced community. In the event that the affordable units are not built, Pardee will be required to pay the Inclusionary Fee.

Furthermore, the proposed development of affordable dwelling units at the Playa del Sol site assists in meeting the goal of providing Transit Oriented Development (TOD) in the Otay Mesa area. The TOD Guidelines establish standards that promote development conducive to pedestrian and transit travel. Transit needs within the area are currently served by Metropolitan Transit System (MTS) express and local bus service, with service generally provided along Otay Mesa Road/SR-905, between the Iris Avenue Trolley Station and the Otay Mesa Port of Entry. The Trolley Station is approximately 2.8 miles from Playa del Sol. The nearest existing bus stop to the Playa del Sol site is at SR-905 and Caliente Avenue, and within a ten-minute walk from many points within Playa del Sol. While not itself a mixed-use project, the provision of an inclusionary affordable housing component within a multi-unit residential development that abuts existing or designated institutional, park, and community commercial uses, on a site well served by transit, contributes to the fundamental purpose of a TOD, which is "to create land use patterns that would support transit " (Guidelines, page 9).

#### Environmental Review

Addendum No. 4925 to Final Environmental Impact Report (EIR) No. 86-1032 was prepared for the Playa del Sol project and certified by the San Diego City Council on February 17, 2009. EIR No. 10046 and Addendum EIR No. 388889 were prepared for the Castlerock and Castlerock Amendment projects and certified by the San Diego City Council on September 16, 2013 and July 21, 2015, respectively. The proposed deed restriction of 42 dwelling units, within the previously approved development, as for-rent affordable housing would not result in new adverse impacts. Pursuant to the California Environmental Quality Act (CEQA) Guidelines Section 15162, there is no substantial change in circumstance, project changes or new information that warrants additional environmental review or preparation of a new environmental document.

Conclusion

Staff has reviewed the application for a Variance to allow the applicant to provide off-site rental affordable housing in lieu of paying Inclusionary Fees or providing on-site for-sale affordable housing at the Castlerock site. As explained above, the provision of for-sale or rental affordable housing on-site within the Castlerock development is not feasible, and the provision of affordable rental housing, albeit off-site, would better meet the purpose of the Inclusionary Regulations than the payment of Inclusionary Fees. The affordable housing is proposed within a previously approved development that predates the Inclusionary Regulations, and in area of the community that is almost completely developed with limited opportunities to provide affordable housing. The requested relief is consistent with the General Plan and the OMCP affordable housing goals and policies, supports the intent and purpose of the Inclusionary Regulations of encouraging diverse and balanced neighborhoods with housing available for households of all income levels, and assists in providing a more economically balanced community and transit oriented development. Staff has provided a draft ordinance supporting the required findings, waive required Finding No. 2, and waive the requirement of a Planning Commission hearing and recommendation (Attachment 7).

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #3 : Create and sustain a resilient and economically prosperous City.  
Objective #1: Create dynamic neighborhoods that incorporate mobility, connectivity, and sustainability.

FISCAL CONSIDERATIONS:

All costs associated with the processing of this application are recovered through a deposit account funded by the applicant. If the Variance is not approved, an Inclusionary Affordable Housing Fee (Inclusionary Fee) would be paid by the applicant based on the gross building area of residential units within the Castlerock project and the fee rate in effect at time of building permit issuance. There is no proposed subsidy or contribution from the San Diego Housing Commission.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable): N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

Due to the inability to make all of the required findings to approve an Inclusionary Affordable Housing Regulations Variance, the project request is proceeding directly to the City Council as an uncodified ordinance which would allow the request to waive one required finding and a Planning Commission hearing and recommendation.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

The request for a Planning Commission Variance approval was considered by the Community Planning Groups. The Otay Mesa Planning Group considered the project on April 20, 2016 and voted 9-0-1 to recommend approval of the project (Attachment 14). The East Elliott Community Plan area does not have an active CPG. The CPG of the adjacent community, the Tierrasanta Community Council, considered the project on March 16, 2016 and voted 11-0-0 to recommend approval of the project with no conditions (Attachment 15).

KEY STAKEHOLDERS AND PROJECTED IMPACTS: Pardee Homes.



Robert Vacchi  
Director  
Development Services Department



David Graham  
Deputy Chief Operating Officer  
Neighborhood Services

Attachments:

1. Aerial Photograph – Castlerock
2. Aerial Photograph – Playa del Sol
3. East Elliott Community Plan Land Use Map
4. Otay Mesa Community Plan Land Use Map
5. Project Location Map – Castlerock
6. Project Location Map – Playa del Sol
7. Draft Variance Ordinance with Findings
8. Draft Variance Permit with Conditions
9. Copy of Recorded Permit – Castlerock
10. Copy of Recorded Permit – Castlerock Amendment
11. Copy of Recorded Permit – Playa del Sol
12. Copy of Substantial Conformance Approval – Playa del Sol
13. San Diego Housing Commission Letter of Support
14. Otay Mesa Planning Group Recommendation
15. Tierrasanta Community Council Recommendation
16. Ownership Disclosure Statement
17. Castlerock - Approved Site Plan
18. Castlerock Unit 5 Amendment – Approved Site Plan
19. Playa del Sol - Approved Site Plan
20. Playa del Sol - Substantial Conformance Review (SCR) – Approved Site Plan
21. Playa del Sol – Affordable Housing Exhibit