


## Home Out of Range? by Krystn Shrieve

Rodd Miller '01 thought, when he sold his condominium in Arizona and came to San Diego, that he could buy a new three- or four-bedroom house in the city's Mission Valley neighborhood for himself, his bride-to-be and their two dogs.

He thought wrong. Although developers have built a seemingly endless plain of new condominiums and houses in the area, Miller, a financial analyst who graduated with a bachelor's degree in business administration, couldn't come close to affording anything of the size he needed. When he came to grips with the situation, he decided to change tactics.

Miller asked his parents for financial help and sacrificed on his ideal location, opting to live in Oceanside, 30 miles north of San Diego. There, he pre-qualified to get on a waiting list for a new housing development. 

But he wasn't home free. The process of buying a new home differs, depending on the developer. It sometimes means buyers throw their names into a lottery or physically wait in line to stake claims on lots. In Miller's case, each time a new phase of six or 10 homes was released for sale, he'd spend a Saturday at the construction site, hoping his name would be called. He sweated it out as new phases came and went, knowing that the next time around the homes would cost \$6,000 to \$10,000 more. His name inched its way up the list and, after two months, it was called. But he wasn't at the construction site with the throng of hopeful homeowners. It was Saturday, July 5, 2003. And Miller, who married Mary Wheeler '01 that day, almost lost his place on the list.

But he got lucky.

"When I explained that it had been my wedding day, they were kind enough to let me select a lot," says Miller, who now owns a four-bedroom house. "Our house is gorgeous and we're so happy we're in it."

The Millers are one couple among many who, despite making good salaries, have difficulty affording a home in San Diego County.

The median price of homes is on the rise throughout the region, and incomes have not kept pace. In January 2004, according to the San Diego Association of Realtors, the median price of a single-family home in the county was \$459,450 - \$87,200 more than in January 2003. Meanwhile, the 2002 figures from the U.S. Census Bureau show the median household income in the county is \$50,384.

Crunch those numbers and they tell a sad tale. Say a family making the median income purchases a single-family home at the median price, assuming a 20-percent down payment, a 30-year fixed rate mortgage at 6 percent interest and 1.5 percent for property taxes and other fees. After a year, that family would spend \$30,840 - or 61 percent of their income - on housing.

"Now you see why there's a problem," says business Professor Mark Riedy, director of USD's Real Estate Institute. "The old rule was you shouldn't spend more than 28 percent of your income on housing. Today's standards have stretched that to 35 percent, maybe 40 percent. But nobody can afford to spend 60 percent of their income on housing."

So Riedy, associate director Louis Galuppo and others at the School of Business Administration's Real Estate Institute - founded to give business and real estate students classroom education and hands-on experience in areas such as land-use planning, affordable housing, community and urban planning, and financing - are setting out to make a dent in the crisis.

"If we don't solve this problem now, it will affect the economic vitality and ultimately the quality of life of our region," Galuppo says. "Businesses won't be able to find employees who can afford to live here and will eventually leave, jobs will dry up and everything will accelerate into a vicious cycle."


Industry experts say the problem most people have finding and buying a house stems from red tape, high permit fees, zoning and environmental restrictions, weak public leadership and, in the San Diego region, a heavy emphasis on the tourism and convention industries, which create low-paying jobs.

Rather than trying to tackle that entire universe of issues, however, Real Estate Institute faculty and students are pinpointing their efforts on the shortage of "workforce housing," which they define as housing for those in the San Diego region who make 80 percent to 150 percent of the median income, or an annual income between \$40,000 and \$75,500. The range includes incomes that are too high to qualify for most government agencies' affordable housing programs - which target people who make less than 80 percent of the median income - but too low to actually afford most homes in San Diego County.

Why the focus on this income bracket? Because only 16 percent of San Diego households can afford to purchase a median-priced

home, according to the January 2004 Housing Affordability Index posted by the California Association of Realtors.

“That’s middle America, it’s almost everybody we know,” says Galuppo, who is shaping the institute’s efforts in the area of workforce housing. “There are a lot of programs available for people who need affordable housing, but there’s little to nothing being done to help people in this income group.”

Patricia Areias '01 is one of them. Like Rodd Miller, she wanted to live in San Diego’s Mission Valley neighborhood. She managed to scrape together a down payment for a two-bedroom, two-bathroom condo along the river, but realized she had to sacrifice to make her monthly mortgage payments. Areias, who works for a commercial mortgage company, found a roommate and took a second job as a waitress. 

“The places I looked at were \$60,000 to \$80,000 less a year earlier, so I knew I had to get in before they got any higher,” Areias says. “I will be getting married in September and my roommate will move out. But having that extra bit helped make it easier to pay my mortgage and still occasionally go out on a Saturday night.”

The way Galuppo hopes to help Areias, and others like her, is by bringing the issue of workforce housing to the forefront of public awareness. He says USD’s Real Estate Institute, which as an educational organization is trusted as an independent, unbiased third party, has the influence to bring together all the players needed to make a buzz.

So far, the strategy has worked. Last year, the institute formed a workforce housing task force to delve into the issue. Composed of representatives from local city councils, the California Builders Association, the San Diego Association of Governments, affordable housing programs and the San Diego Economic Development Corporation, the group hosted a conference on the topic in September, bringing together 350 industry experts and elected officials to discuss the issue.


The institute also formed the Residential Real Estate Committee, a group of 25 real estate professionals who interact with students and advise Galuppo on conferences and research topics. They met in March to discuss workforce housing and have since launched a campaign to raise \$100,000 to fund research on the issue, produce papers, educate the public and host a series of speakers who can address specific issues within the larger problem.

“With this fund, we can move forward on the ideas we bandy about in these meetings,” Galuppo says. “We can fund our own objective research with a pool of money from throughout the industry, not special interest groups.”

After taking a look at the problem with these groups, institute professors and students decided that while the housing problem may seem complicated, it’s actually a straightforward case of supply and demand. The huge demand comes as people across the country increasingly want to move to San Diego, and compete for places to live with people whose families have lived here for generations.

“I’ve lived here since 1978,” Galuppo says. “My kids are 10 and 14, and I already know that at this rate, they don’t stand a chance of affording a home here.”

Likewise, the rate of home construction doesn’t stand a chance against the swelling influx of people. In a 2001 study titled “Solving the San Diego Region’s Housing Crisis,” the San Diego Association of Governments said the housing crisis can be largely attributed to a housing shortage caused by a continuing decline in housing production, especially multi-family housing, during the 1990s. Under existing plans and policies, there’s expected to be an even more severe shortfall in the future. The region is expected to have a shortage of 93,000 homes and apartments by 2030, according to Paul Kavanaugh, a senior regional planner at SANDAG, who says the figure represents 251,100 people.

“These are working families and individuals who will not be able to live here, and who will be forced to live in El Centro or Temecula or Tijuana and commute,” Galuppo says. “That means they’ll be spending hours every day sitting on the freeways, which will take time away from families - from soccer practice, Little League games, parent-teacher conferences and on and on.” 

To make matters worse, the price of housing isn’t expected to go down anytime soon, according to USD economics Professor Alan Gin, who for more than a decade has predicted the county’s economy using his Index of Leading Economic Indicators. Gin says he expects interest rates to rise in the near future, which typically brings the prices of homes down. But in this region, he thinks it will mean only that prices will rise at a slower pace.

“A traditional economist’s view is that this phenomenon is just the market at work, and that if the price of homes is so high, people just won’t move here,” Gin says. “But even if nobody new moved here, we still have 50,000 new people a year just in natural growth as people have children. We still need housing for them.”

Riedy, Galuppo and Gin say it’s crucial that any plan to solve the shortage of workforce housing include a method to increase

density.

“Increasing density is an important element, because each year there is less and less available land, and the cost of that land goes up,” Riedy explains. “If you’re going to make it economically feasible to build, you have to increase density by building more housing units per square acre. If you build, for example, 10 units on a square acre rather than one or two, you can make the price of each more affordable.”

Sounds easy, right? But it’s how to make increased density possible that’s complicated. Galuppo has a three-pronged plan to approach the solution at the local, state and federal levels. First, he says, the state has to loosen restrictions on the environmental, subdivision, construction defect and insurance laws that impede construction. Second, the local government needs to streamline the permit process and decrease permit fees. Third, he says, the federal government must create national programs for workforce housing, similar to those offered for affordable housing.

The federal government, Galuppo says, also needs to provide lower interest rates for people purchasing workforce housing, and tax credits for the builders providing it.

“Workforce housing doesn’t have an official definition yet,” Galuppo says. “As far as we know, the only other universities looking at this are Harvard and University of Georgia and, even then, probably not to the extent we are. But we believe we can make a difference if people will listen.”

Galuppo admits his is an answer that almost nobody wants to hear. It certainly flies in the face of growth opposition groups, including those dubbed NIMBYs, an acronym for “Not in my backyard!” or those nicknamed BANANAs, who take their stance one step further and say, “Build absolutely nothing anywhere near anyone!” Knowing his views aren’t popular - environmentalists may say radical and local government officials may say unrealistic - Galuppo says he will lobby for as long as it takes to convince others they will work. He has set about sharing his vision by presenting papers at real estate conferences, writing columns about workforce housing in local newspapers and trying to capture the ears of local members of Congress and officials at organizations such as the National Housing Conference, Fannie Mae, the California Realtors

Association and the California Building Industry Association.

“Because of the politics involved, it could take years,” Galuppo says. “But if we can make politicians see that this is a household issue, and that eventually this problem will hit the entire nation, we could change things in one election cycle.”

At the same time they work on long-term solutions, Galuppo, his colleagues and their students are biting off smaller portions of the problem.

Myrna Sevick, a second-year graduate student in the M.B.A. program and one of the institute’s research fellows, assisted Galuppo in writing a paper outlining his theories and the results of a survey conducted at the workforce housing conference hosted by the institute in September.

“Teachers, law enforcement officers, firemen, hotel service, convention and restaurant service employees should have the opportunity for the American dream of ownership,” one conference goer wrote in the survey. “However, because of being paid sunshine dollars, they are priced out of the market. They need affordable housing and help with achieving that goal.”

In April, Galuppo presented the paper in Florida at the 20th annual meeting of the Annual American Real Estate Society, a gathering of high-level practicing professionals and real estate professors from colleges and universities throughout the United States.

“Every time I read about this issue it breaks my heart, because it affects people like myself,” says Sevick. “I’m in that group, and I know my dream of getting a house with a yard is getting farther and farther away. The solutions aren’t popular, but somebody needs to take a stand. We have to share the message person by person and group by group. Even it falls on deaf ears, knowing we tried will count for a lot.”

Galuppo also is working with second-year graduate student Carter McLarand, who has a bachelor’s degree in urban planning and has worked as a research analyst for architecture and real estate development firms. The duo wrote a paper about what they call smart growth, which could mean adopting mixed-use approaches - like building housing units above stores - or revitalizing urban cores, and then building homes around that core. A great model, Galuppo says, is San Diego’s downtown, where revitalization started around Horton Plaza, a shopping center that opened in 1985, and spread to include countless condominiums and businesses that now stretch far beyond the city’s center.

Another example of smart growth, they say, is building around access to mass transit.

“Traditionally this has meant the option of a boring and slow bus, or the all too rare, and expensive to build, light rail,” McLarand wrote in the paper. “Now there is a new option called Bus Rapid Transit, which uses buses in designated lanes that don’t have to deal with traffic or stoplights. This gives the best of both worlds, allowing the traffic the free movement of the rail without its enormous cost implications.”

As he looks down the long road he will travel in educating politicians and the public about the search for solutions at the Real Estate Institute, Galuppo says he’s heartened to find his passion for alleviating the shortage of workforce housing is rubbing off on students who will take up the torch when they go into the industry. McLarand, who expects to earn his M.B.A. in finance this spring, says he’s confident the shortage of workforce housing can be solved.

“I have a lot of hope as I go into this field,” says McLarand, who plans to work in real estate development. “Developers get a bad rap as people who destroy open space to make a quick buck. But without them, we don’t have a place to live or to work. I’m just excited that I can be part of the solution to a pretty serious problem.”

Solving the workforce housing shortage means more than just giving people a place to live, says Riedy. In his estimation, the task being undertaken by the Real Estate Institute is not just to keep the home ownership dream alive, but to preserve San Diego’s quality of life for all.

“If we don’t solve this issue, we’ll face what’s popularly called a brain drain,” Riedy says. “We will lose well-educated students coming out of our colleges, we will lose discouraged teachers, firefighters, police officers, librarians and all the people who really make the quality of life better in San Diego. That’s the cost of not doing something about workforce housing.”

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