



# CITY OF ENCINITAS

## Displacement Risk Analysis

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December 2023











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# Executive Summary

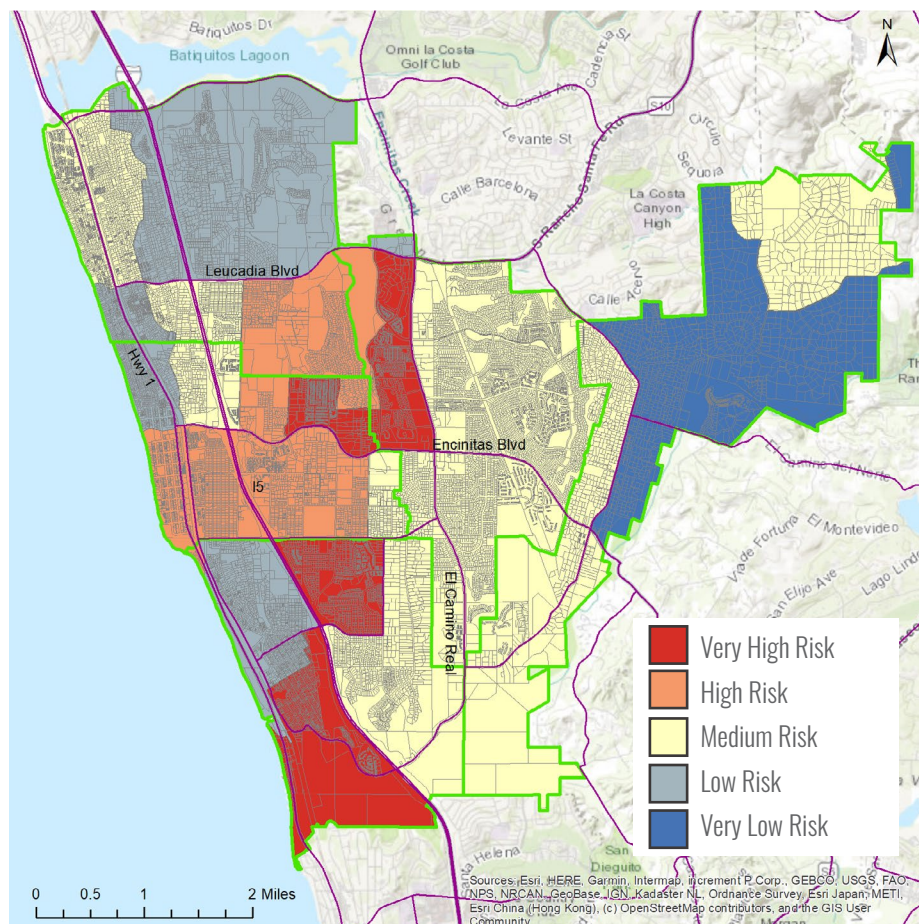
City of Encinitas is a wonderful place to live by most metrics. Set along the coast, it enjoys temperate weather, strong schools, low unemployment, and the median household income of \$132,000 is 77% higher than the national average of \$74,500. However, it suffers from high housing costs. The average property value is over \$1M, more than double the national average. These high housing costs can put tremendous financial pressure on households, and ultimately force some to leave the City. "Displacement" occurs when households are forced out when they would have otherwise preferred to stay.



This report is a Displacement Risk Analysis conducted by Beacon Economics. It identifies the economic, social, and structural factors that put households at risk of displacement in Encinitas. Its key findings include:

- While Encinitas expanded its housing stock in recent years, it is still in short supply overall due to two decades of little-to-no construction.
  - o From 1970 to 1990, Encinitas built 15,000 new housing units. In the last 20 years, Encinitas only built 2,650 additional housing units, 10% of its total housing stock.
  - o To reach the same ratio of housing units-to-population as the average American city, Encinitas would need roughly 2,000 more housing units, about 10% more. The City's Housing Element identified 3,700 potential housing units, of which over 1,000 have been permitted.
- The lack of new housing has put tremendous pressure on housing prices, increasing housing costs so much that over half of the City's population is now "rent burdened" – a US Department of Housing and Urban Development categorization that means people spend more than 30% of their gross income on rent.
- Each year, roughly 13% of the city's population moves out of Encinitas and is replaced by new households moving in. The median income of those moving out is lower than the median income of those staying.
- Based on a series of economic and social indicators, such as homeownership rates, median income, and demographics, the residential neighborhoods facing the greatest Displacement Risk are Cardiff-by-the-Sea, the Ada Harris Park area, the residential neighborhoods behind the commercial strip east of El Camino Real, and the area downtown near the Encinitas Sign.

## Encinitas Displacement Risk Level





- To help lower Displacement Risk, additional housing should be constructed. The following policies and activities would help this development:
  - o Lower the entitlement costs of construction by streamlining or centralizing the approval process, or by implementing a by-right approval approach. The city is already making progress in this direction with Housing Element Programs 3B and 3D. Recently passed Bills and Acts from the State Legislature may allow some housing development without triggering a Proposition A vote.
  - o Consider a Vacancy Tax on vacant houses, which have doubled in number to almost 9% over the last decade. Encinitas could use this tax to fund affordable housing.
  - o Engage with the Public to encourage their support.
    - Engage with Employers who are indirectly burdened by high housing costs.
    - Inform public on the potential of \$1.2B in economic benefit from housing construction
    - Educate the public on the consequences of the Housing Accountability Act, No Net Loss law, and the builders remedy for future housing dialogue.
  - o Housing is ultimately a regional problem, so form partnerships to encourage neighboring municipalities to take similar measures.
- While the City should seek out opportunities to increase the number of available Section 8 vouchers, Beacon does not recommend rent control or rent stabilization policies. Research shows that, while helpful to existing tenants in the short-run, in the long-run rent control can lower the quantity and quality of the rental stock, and usually drives up housing rents on average.<sup>1</sup>

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<sup>1</sup> Diamond, Rebecca, Tim McQuade, and Franklin Qian. 2019. "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco." *American Economic Review*, 109 (9): 3365-94.



# Introduction

Stretching along coastal bluffs and pleasant beaches in Southern California, the City of Encinitas is home to roughly 63,000 people. While 'Old Encinitas' was originally founded in 1881, the modern City of Encinitas was incorporated in 1986. Since that time, Encinitas has earned a reputation as a highly desirable place to live. It has low crime, strong schools, and enjoys sunny temperate weather.

Beacon Economics was hired to conduct a Displacement Risk Analysis for the City of Encinitas as part of its Housing Element (Implementation Program 5C). Displacement can be caused by several factors including, environmental forces such as floods or droughts, the government's urban development plans such as transportation infrastructure, or gentrification and rising prices. These last two factors are the primary displacement force in Encinitas. Housing and Rental costs have increased significantly over the last couple decades displacing those in Encinitas who cannot afford the rising costs. 'Housing Displacement' is the forced or involuntary relocation of residents from a home or neighborhood, where tenants would otherwise have wanted to remain, if not for the socioeconomic, environmental, or government pressures making it infeasible or undesirable.<sup>2</sup> Being displaced is often incredibly hard on people. It has life altering affects and can sometimes lead to homelessness. After being displaced, households usually move to neighborhoods with fewer job opportunities, longer commutes, and children often have to change schools.

Analyzing housing in Encinitas, it is clear that displacement has already been occurring for a number of years, and will continue to happen into the future unless policy makers change the City's housing laws or voter initiatives, such as Proposition A.

The following report provides detailed information on the displacement forces in Encinitas, and identifies which neighborhoods face the greatest Displacement Risk. To compile this report, Beacon Economics relied on numerous government datasets, proprietary datasets, and established economic frameworks. Additionally, Beacon conducted 1 hour interviews with a property developer, members of different community-based organizations, and three City Council members, between November 15th and November 22nd. The report is broken into four key sections.

1. **Economic, Demographic, and Housing Trends:** an overview is provided of the primary economic, demographic, and housing trends over the last few decades, in order to illustrate the key dynamics evolving in the city.
2. **Immigration and Emigration:** an analysis of who has moved out of the city and who has moved into the city each year, over the last decade. It relies upon some specific questions in the American Community Survey. Respondents are asked if they moved within the last year, and if they answer 'Yes', the survey asks where they moved from. This enables us to know who left Encinitas and their characteristics.
3. **Displacement Risk Locations:** breaks the city down into 19 smaller neighborhoods and identifies which parts of the city face the greatest risk of displacement.
4. **Housing Displacement Risk Mitigation Policy Considerations:** discusses the general trends of displacement in Encinitas, and provides strategies to reduce Displacement Risk going forward, drawing on the experiences of other cities.

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<sup>2</sup> Ryan Cohen, "Shelter-in-Place: Reducing Displacement and Increasing Inclusion in Gentrifying Neighborhoods," Harvard Law and Policy Review 13 (2018): 273–326, available at [https://harvardlpr.com/wp-content/uploads/sites/20/2019/02/20180813-1\\_Cohen.pdf](https://harvardlpr.com/wp-content/uploads/sites/20/2019/02/20180813-1_Cohen.pdf).



# 1. Economic, Demographic, and Housing Trends

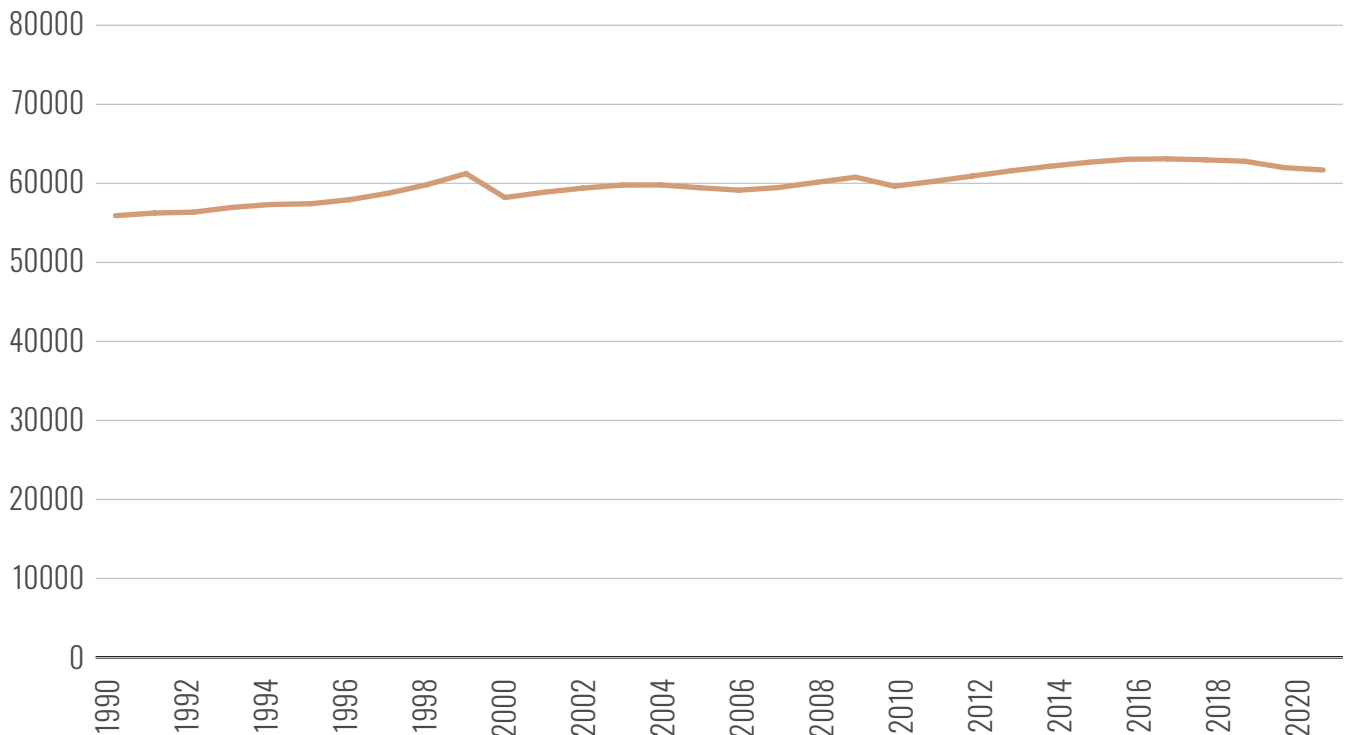




## 1.1 Encinitas Population Over the Last 20 Years

While the City's population grew gradually in its first decade, it has experienced very little population growth over the last 25 years. At the turn of the millennium, the city had 58,195 residents and 20 years later, in 2020, it had 62,967.

**Figure 1: Encinitas Population Growth**



Source: American Community Survey; Analysis by Beacon Economics

This is largely because the housing stock of Encinitas has not grown substantially in the last two decades. In 2000, there were 23,867 housing units, whereas in 2020 there were 26,129 housing units, which allowed for an average annual growth rate of only 0.4%.

How many houses should Encinitas have? This question will be discussed further in the final section on housing policy, but it is worth briefly discussing here to add context to the rest of the report. On average, there are 420 housing units for every 1,000 people in cities in New Jersey and New York, which are good peer states to compare California cities against, based on per capita income and urbanization levels.<sup>3</sup>

Encinitas has roughly 385 housing units per 1,000 residents. For Encinitas to reach the 420 average proportion, it would need an additional 2,224 houses. The Sixth Cycle Housing Element plans for 3,700 housing units, which would still be more than average if all were built. Since 2019 the city has approved over 1,100 new units.

<sup>3</sup> McKinsey & Company. (2016). A Tool Kit to Close California's Housing Gap: 3.5 Million Homes by 2025. Retrieved from <https://www.mckinsey.com/~/media/mckinsey/industries/public%20and%20social%20sector/our%20insights/closing%20californias%20housing%20gap/closing-californias-housing-gap-full-report.pdf>





## 1.2 Residential Dwelling Units

The majority of Encinitas residential dwelling units are detached single family homes (58%). This is greater than the percentage of detached single family housing units in Solana Beach (48%), Carlsbad (52%), and San Diego County as a whole (51%). All of Encinitas housing types are displayed below. There have not been any significant changes to the types of dwelling units in Encinitas in the last 20 years.

Table 1: Housing Structures

	Total Units	Single Family Detached	Single Family Attached	Two to Four Units	Five Plus	Mobile Homes
2022	26,516	15,476	4,918	1,837	3,614	672
		58%	19%	7%	14%	3%
2000	23,867	13,171	4,542	2,064	3,320	707
		55%	19%	9%	14%	3%

Source: American Community Survey: Analysis by Beacon Economics

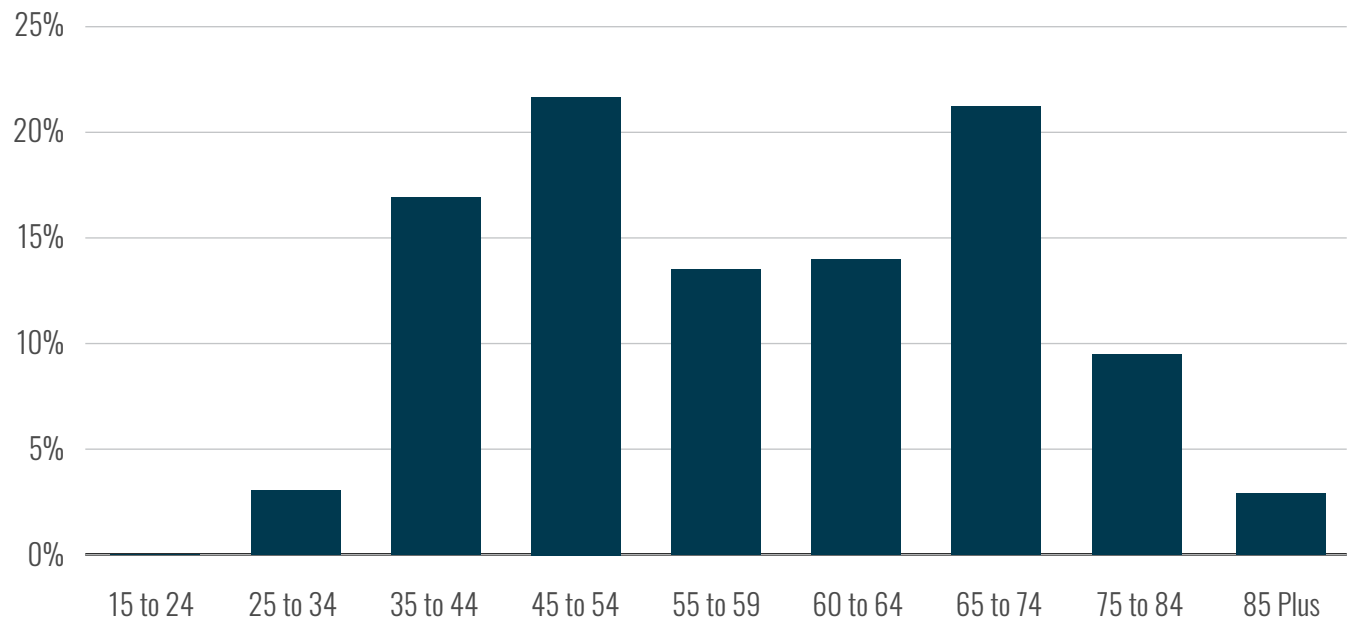
Over the past twenty years, about 36%, or 22,700, of the Encinitas population rent, and about 64%, or 40,000, own their house. This ratio is relatively close to the average renter/owner ratio in California cities. Renters are more at risk of displacement than homeowners. Hispanic homeownership was lower than Whites and Asians in 2010. Since then, the rate of homeownership has fallen further for Hispanics. This is largely because additional Hispanic families have moved into Encinitas over the last 11 years, but they are mostly renting, as opposed to buying homes.



Unsurprisingly, homeowners tend to be older and wealthier than renters as figures 2 and 3 illustrate below.

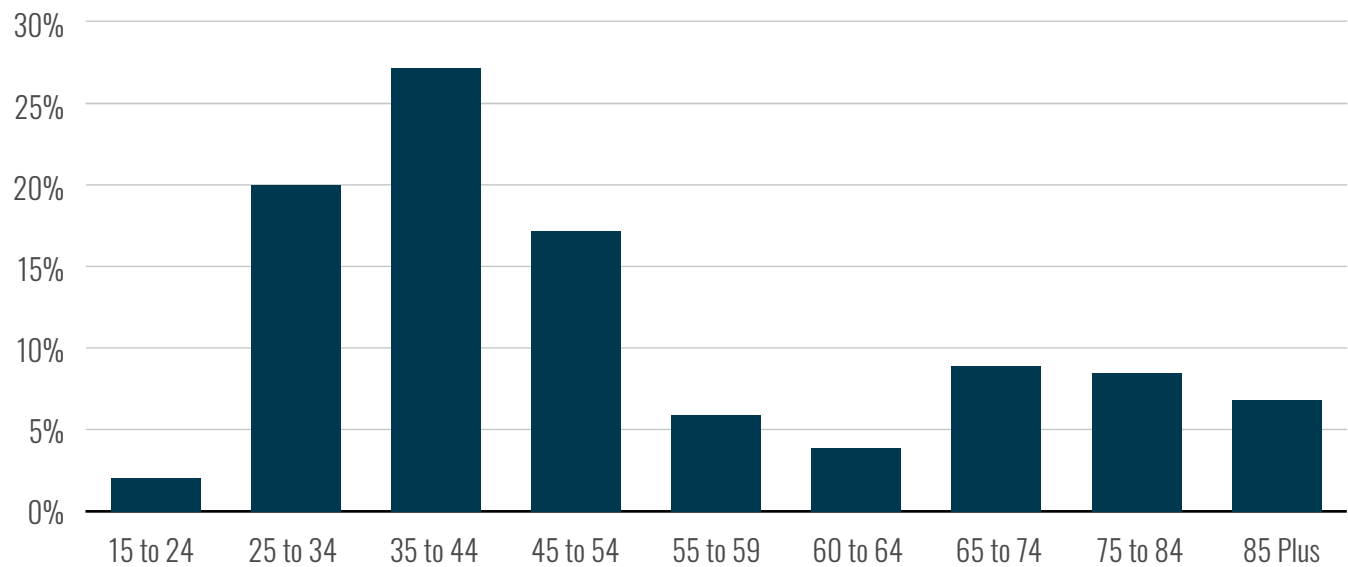
In 2021, 54% of homeowners earned \$150,000 or more income. In contrast, only 26.7% of renters earned \$150,000 or more. In 2021, 25% of homeowners and 21% of renters worked from home. This is a substantial increase compared to 2010, when only 12% of homeowners and 5% of renters worked from home. There was a steady growth of people working from home from 2010 to 2019, but there was a large jump from 2019 to 2020. It seems Covid accelerated the trend of working from home.

Figure 2: Homeowner Ages



Source: American Community Survey: Analysis by Beacon Economics

Figure 3: Renter Ages

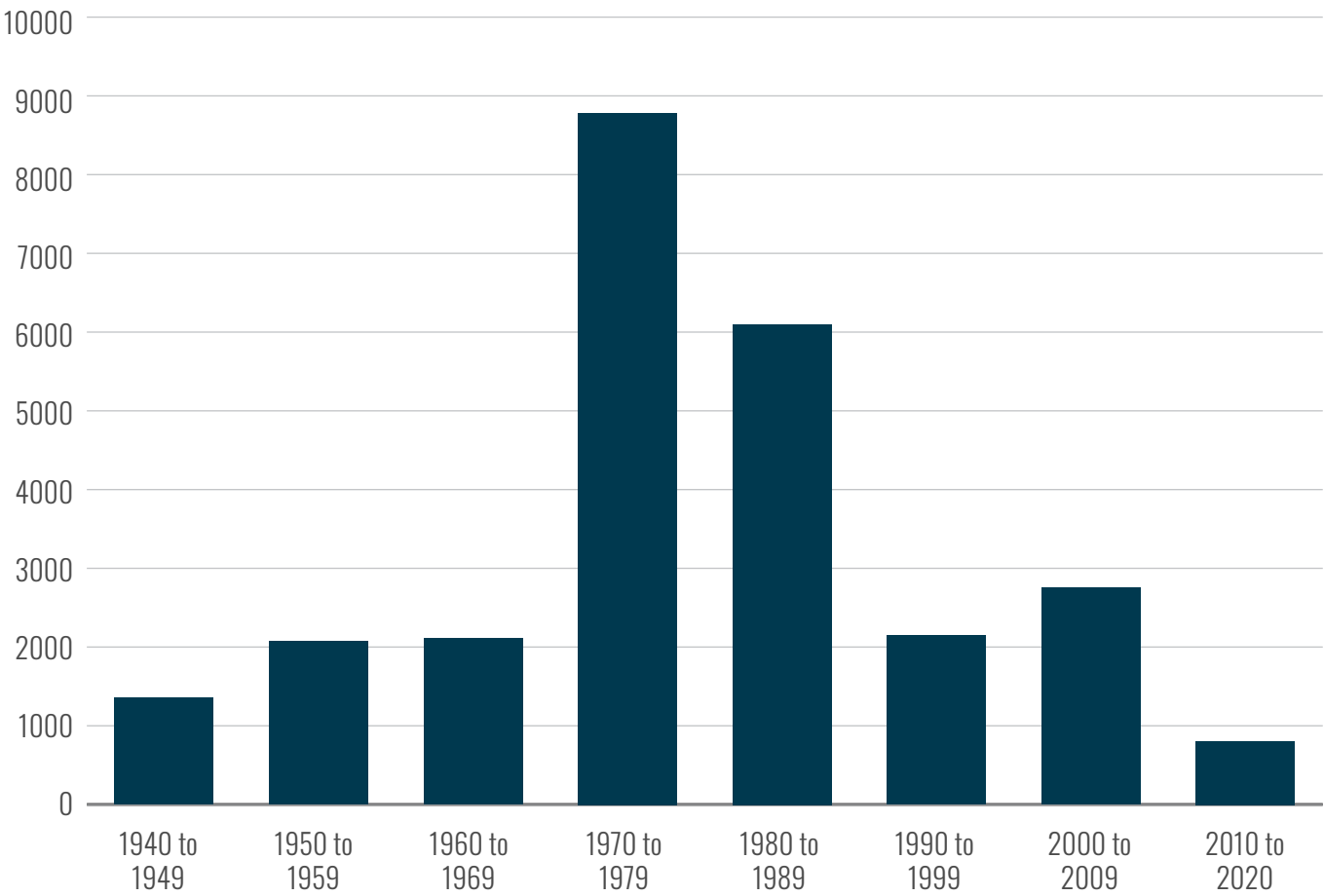


Source: American Community Survey: Analysis by Beacon Economics



A majority of the residential dwelling units (57%) were built in Encinitas in the 70's and 80's. 8% were built in the 1990s, and 10.5% were built from 2000 to 2010. The last decade saw the lowest number of new housing units built in Encinitas since the 1930's. Only 805 houses (3.1%) were built between 2010 and 2020. 611 of those were single family homes, 67 were multifamily homes, and the rest were mobile homes, RV's or 'other'.

Figure 4: Home Construction by Decade



Source: American Community Survey: Analysis by Beacon Economics

Because there were so few new houses constructed over the last decade, migration has been somewhat of a zero-sum game. Meaning, a new resident cannot move in, until a current resident moves out. Meanwhile, Encinitas remains an attractive city for those looking to relocate. This has created a situation of high demand and low supply and has been a primary driver of higher real estate and rental prices.

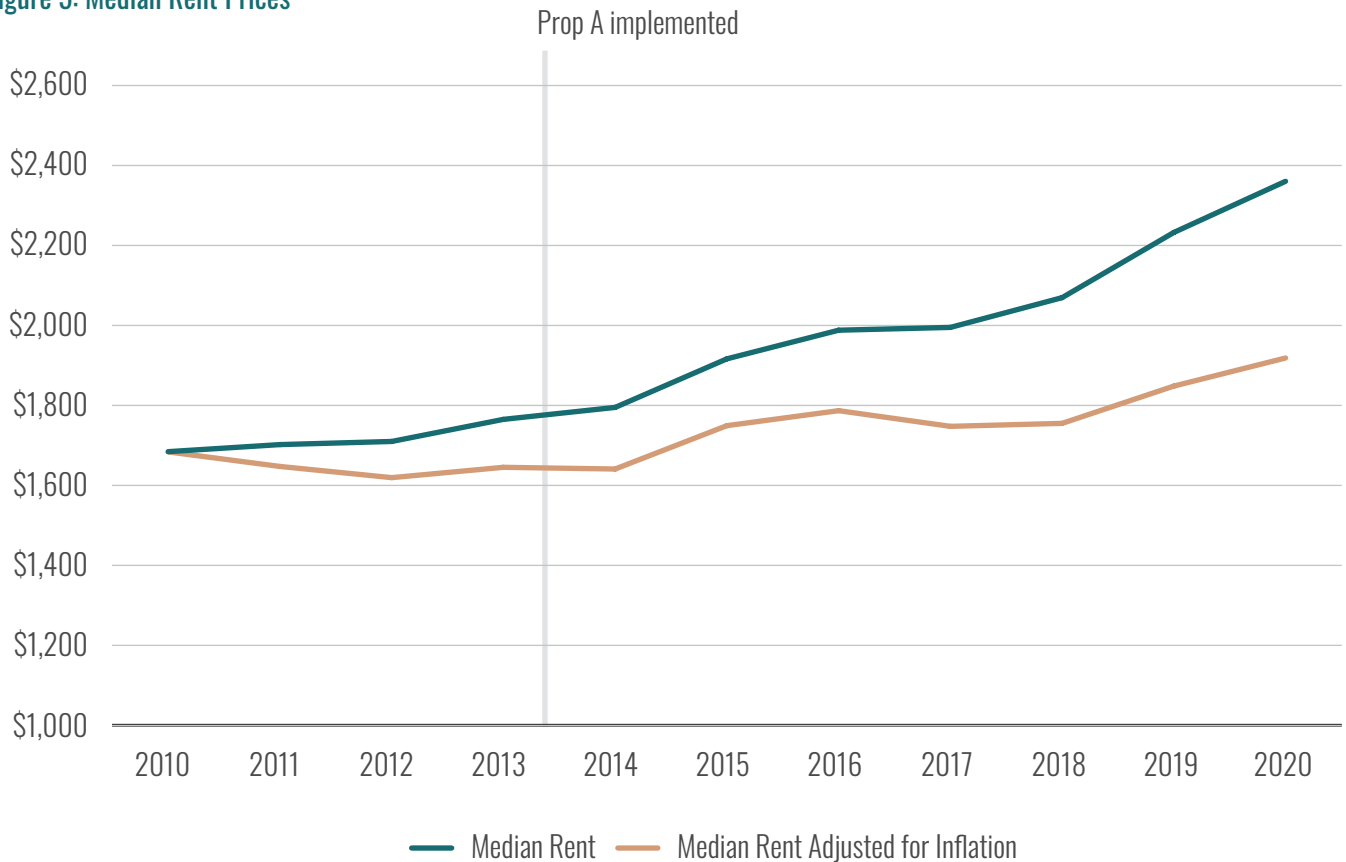
The 2021 to 2029 Housing Element for Encinitas looks to tackle the lack of housing production. Programs 1a, 1b, and 1e have been implemented to allocate sites for housing production and will monitor those sites over the coming years to ensure proper density and affordability is maintained. Programs 2a and 2e help the city ensure that new housing construction is affordable and accessible to all. Finally, program 4b will ensure the existing housing stock is maintained properly.



## 1.3 Rental Rates

The cost of rent has increased markedly in Encinitas. Rent increased at an average annual rate of 4.7% per year from 2010 to 2020 nominally. Adjusting for inflation, the cost of rent growth rate was more or less flat from 2010 to 2014. Since then, it has risen at an average real annual rate of 2.7% adjusted for inflation.

**Figure 5: Median Rent Prices**



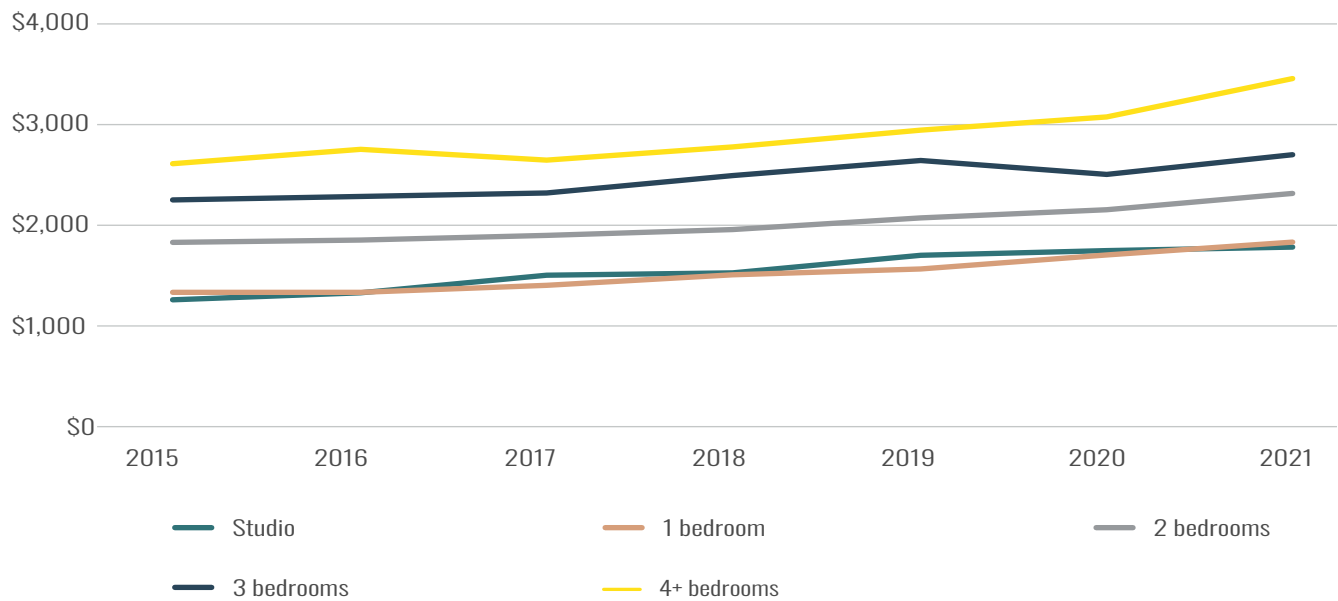
Source: American Community Survey: Analysis by Beacon Economics

The ACS in 2015 recorded median rent by number of bedrooms, which Beacon was asked to include. Figure 6 shows that rents hold a similar trend across all bedroom numbers.





Figure 6: Median Gross Rent by Number of Bedrooms



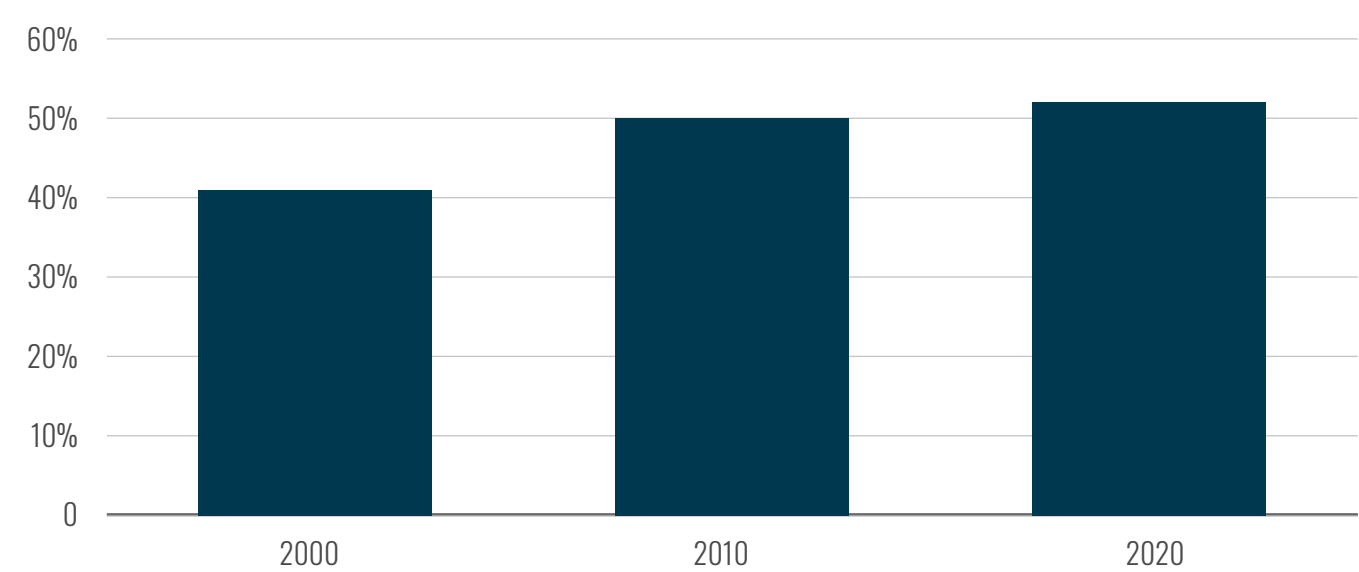
Source: American Community Survey: Analysis by Beacon Economics

However, rent has been rising faster than incomes, causing financial hardship. The U.S. Department of Housing and Urban Development defines "rent burdened" as any household that spends more than 30% of their gross monthly income on rent/sheltering costs. In 2000, 41.3% of households were rent burdened in Encinitas. By 2010, that number had grown to 49.7% and in 2020 it was 52.1%. For comparison's sake, roughly 40% of Americans across the country were rent burdened in 2020, meaning Encinitas is about 12% percentage points above the national average.



2021 and 2022 saw the largest jumps in asking rent prices. However, it is important to note that asking rent data, from sources like Zillow, do not constitute actual rent paid. Research, done by Ana Costa et al, has shown that asking prices on Zillow are higher the actual rent people pay.<sup>4</sup> This is partially because landlords increase rent prices substantially when new tenants come in, and only raise the price gradually for tenants who are renewing their lease.

Figure 7: Percentage of Encinitas Who are 'Rent Burdened'



Source: American Community Survey: Analysis by Beacon Economics

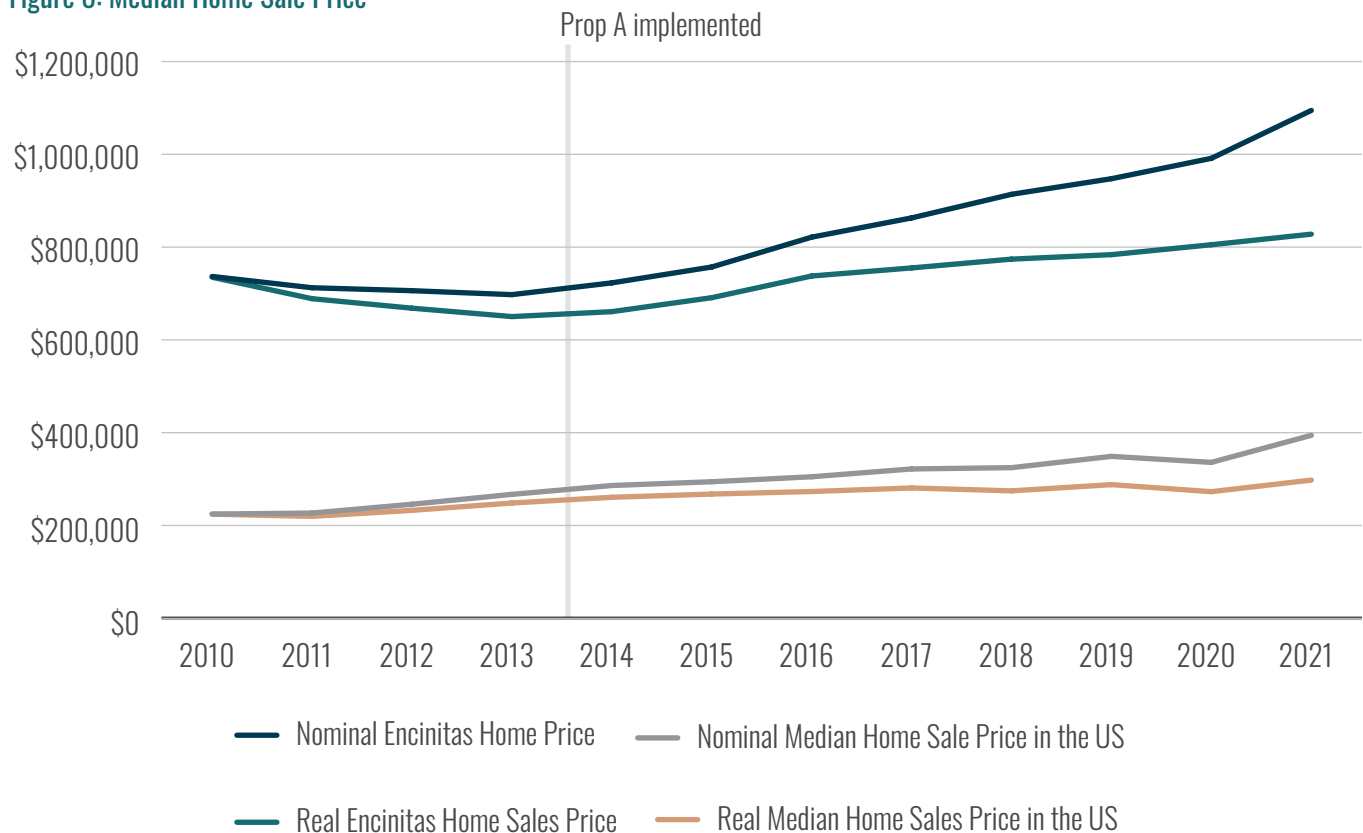
<sup>4</sup> Costa, A., Sass, V., Kennedy, I., Roy, R., Walter, R. J., Acolin, A., Crowder, K., Hess, C., Ramiller, A., & Chasins, S. (2021). Toward a Cross-Platform Framework: Assessing the Comprehensiveness of Online Rental Listings. Cityscape (Washington, D.C.), 23(2), 327–339.



## 1.4 Residential Home Values

Median Home Values have increased more dramatically. In 2021, the median value was \$1,100,000, almost double the median value in the rest of the County. The sky rocketing values over the last couple years were catalyzed by the US Federal Government's Covid-19 relief packages. These provided a large amount of cash for households, and dramatic rises in home values were seen across the nation. This has caused Displacement Risk to increase across the country. The recent drop in home values is the result of the Federal Reserve raising interest rates in an effort to tame inflation, as well as the housing market beginning to correct itself from an overheated 2021.

**Figure 8: Median Home Sale Price**



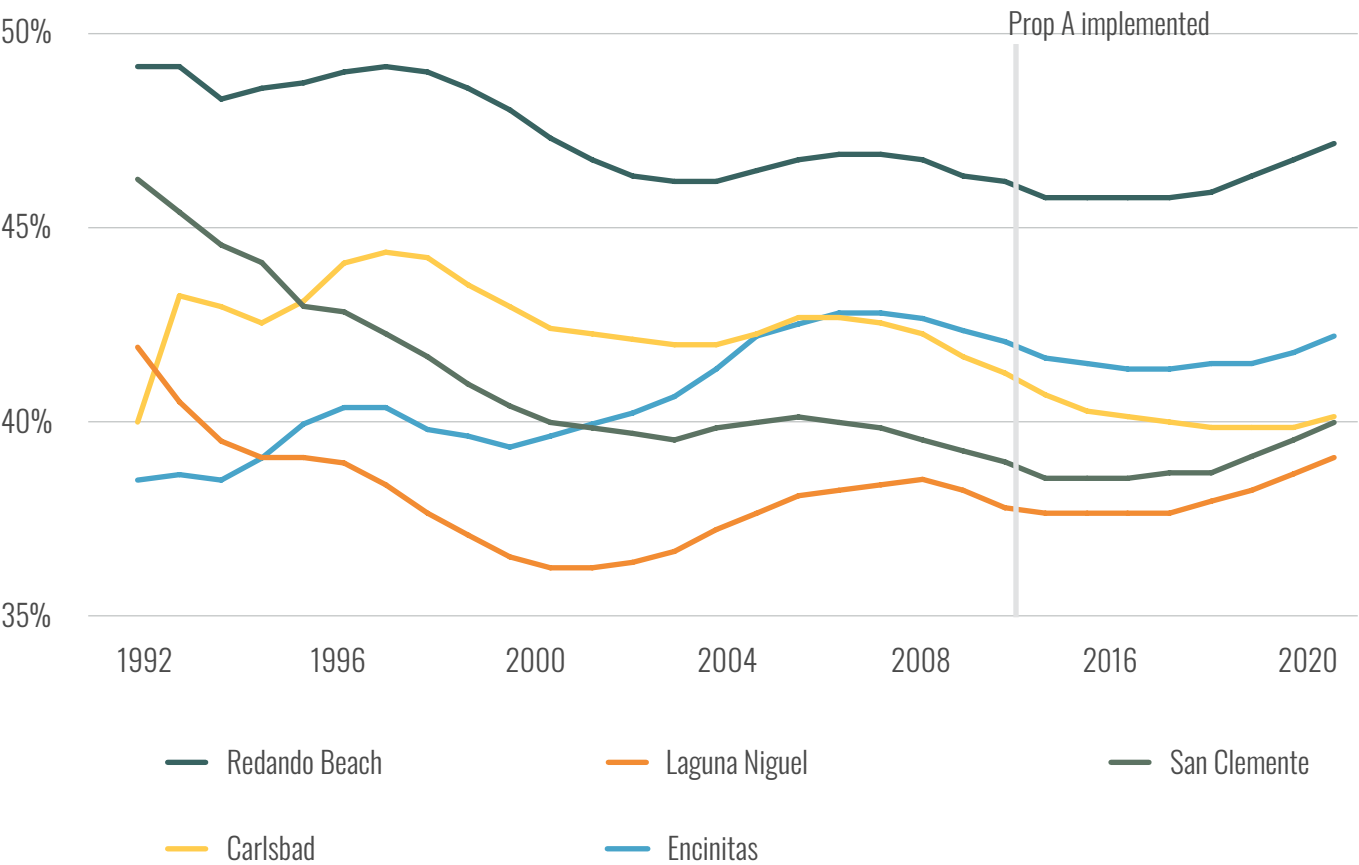
Source: St. Louis Federal Reserve and American Community Survey: Analysis by Beacon Economics



There is not a dataset that identifies if houses are bought by outside investors, however a commonly used proxy metric is the number of houses that are bought completely with cash. In 2017 roughly 22% of homes in Encinitas were bought with cash only, which is similar to California's state average of 24%<sup>5</sup>. It is worth noting that the state average was 10% in 2006, so the number of investor-owned households has certainly increased.

Compared to its peers, Encinitas has improved its ratio of the number of dwellings compared to its overall population size. In 1991 it had less houses per person than Redondo Beach, Laguna Niguel, San Clemente, and Carlsbad. While the proportion has ebbed and flowed over the years, Encinitas now has more houses per person than all of these cities except Redondo Beach. However, unlike other cities, Encinitas' ratio improved because it did not experience much population growth.

Figure 9: Percent Housing Units to Population



Source: American Community Survey: Analysis by Beacon Economics

<sup>5</sup> Levin, M., & Christopher, B. (2018, March 28). Are foreign investors driving up real estate in your California neighborhood? CalMatters. <https://calmatters.org/housing/2018/03/data-dig-are-foreign-investors-driving-up-real-estate-in-your-california-neighborhood/>

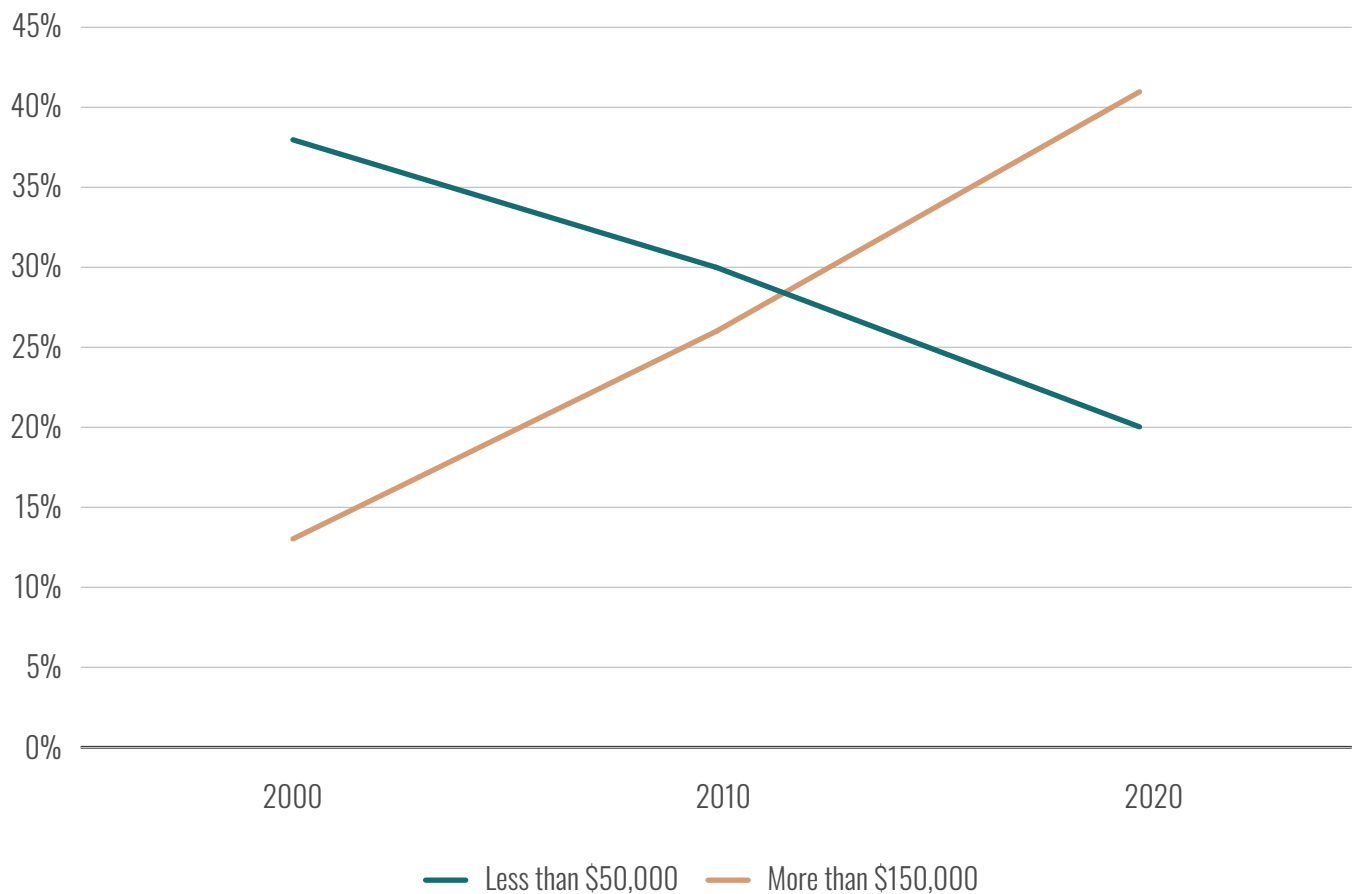


## 1.5 Changes in Encinitas Household Socioeconomic Characteristics

With the dramatic rise in housing costs, residents face increasing financial pressure. It is not a surprise that the average profile of households in Encinitas has become more wealthy, more educated, and older over the last couple decades.

In 2020, the median household income in Encinitas was about \$132k. This is about 1.5 times the median income across California. As the below chart illustrates, the percentage of households earning more than \$150k per year increased from 12% in 2000 to 40% in 2020. Contrastingly, the percentage of households earning less than \$50,000 decreased from 38% to 20%.

**Figure 10: Household Income in Encinitas**



Source: Decennial Census: Analysis by Beacon Economics

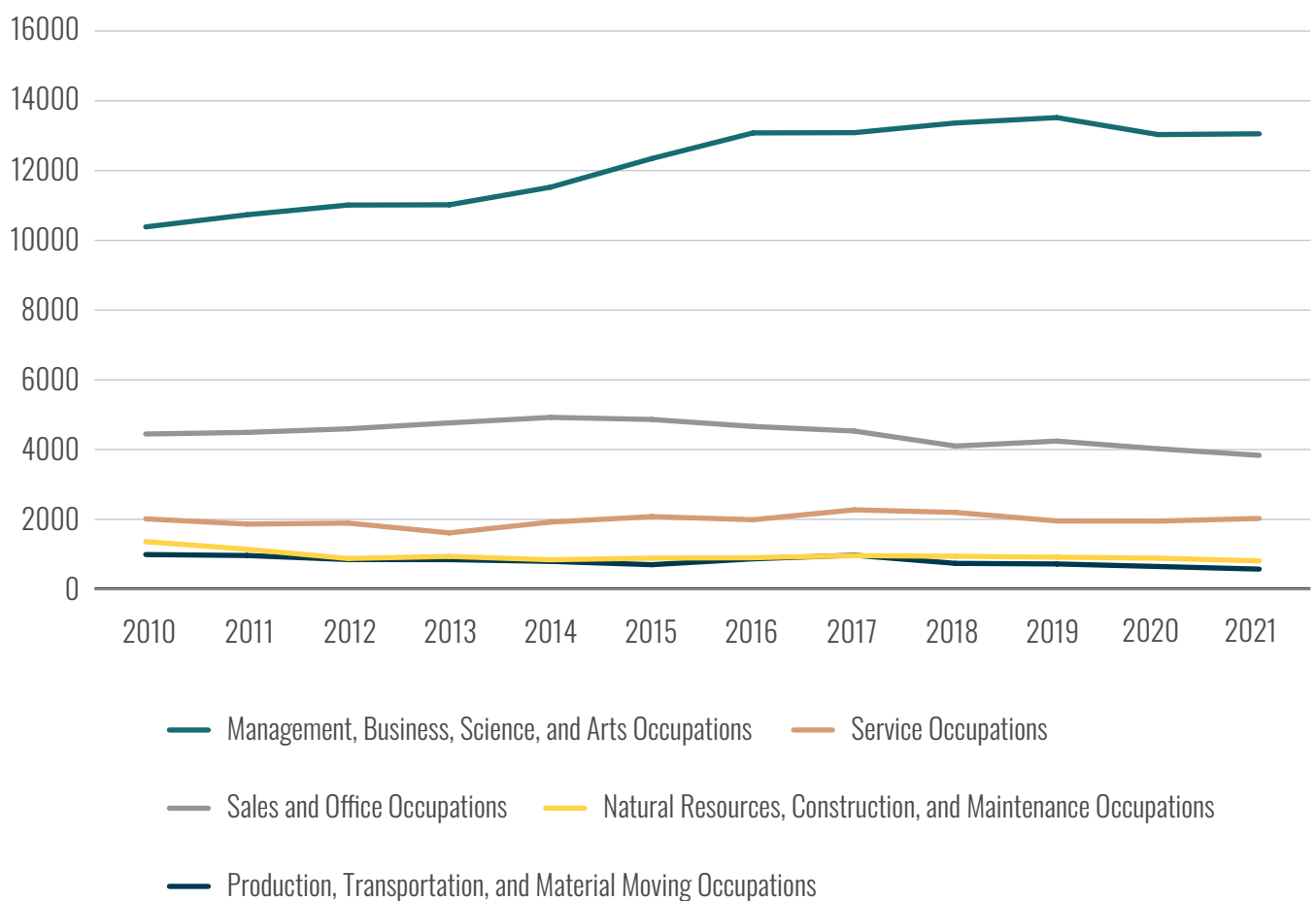


Grouping occupations into major categories, the majority (65%) of full-time workers were in Management and Professional Services in 2021. Management and Professional Services grew by 26% from 2010 to 2021 and were the only category to grow over this period.

Management and Professional occupations are well paying and it is good to see them grow, but it also demonstrates that lower paying occupations are being squeezed out of Encinitas. Sales and Office workers make up a sizeable portion of the economy and it is worrying to see a 14.5% decrease in just over ten years. Figure 11 shows that this is an overarching trend and not a result from Covid.

Overall, the jobs to housing ratio for Encinitas is 0.83. According to Apartment List, the National average is 1.55. This means there is not even one job for each home in Encinitas. Figure 14, a few pages below, shows that labor participation is decreasing in Encinitas overall, which may help explain the low jobs to housing ratio.

**Figure 11: Employment by Occupation**

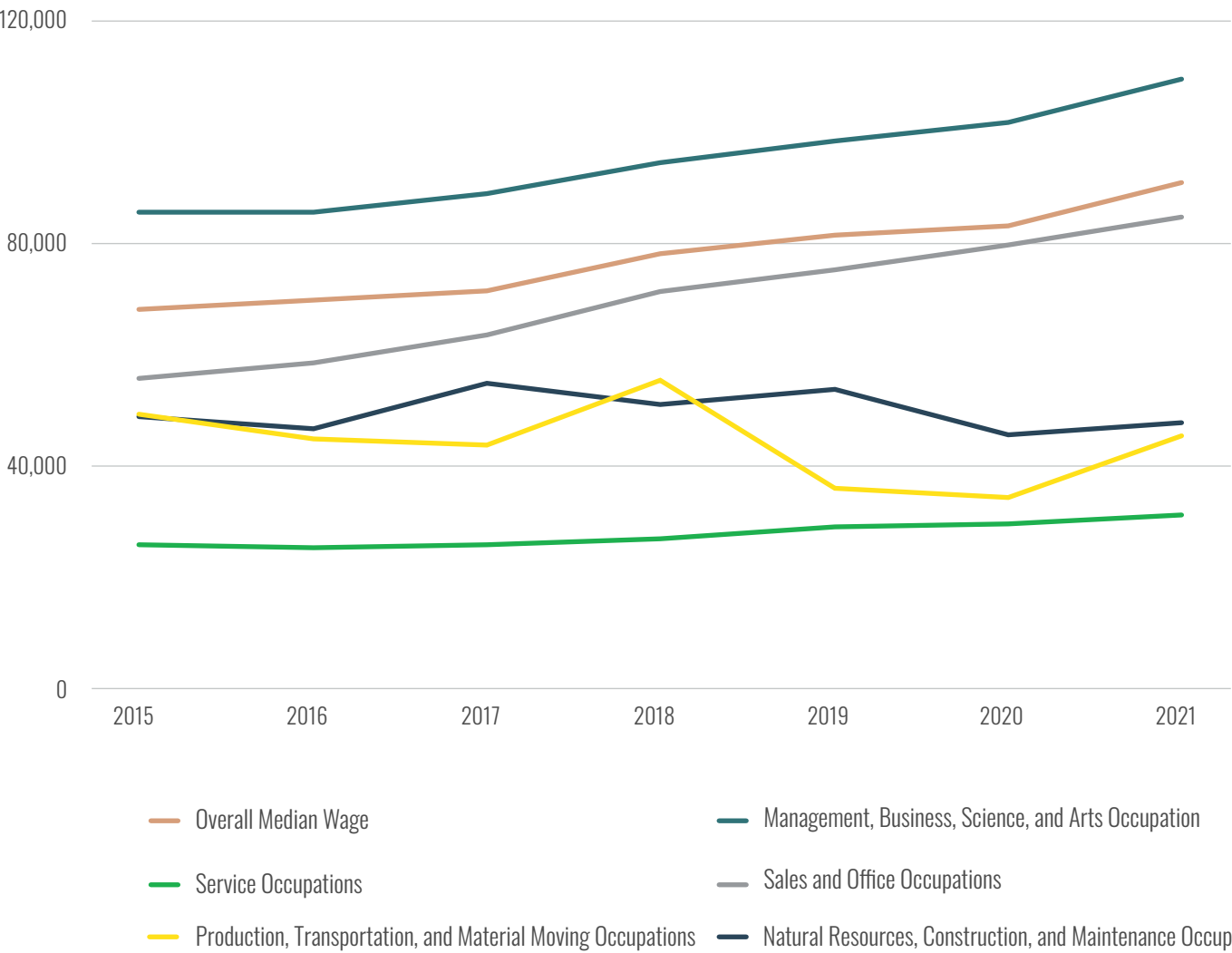


Source: American Community Survey: Analysis by Beacon Economics



Figure 12 below takes the same occupation break down but looks at median earnings. The highest paying occupations are Management and Professional jobs. These occupations have the second highest wage growth between 2010 and 2021 with a 26% increase. The occupation group with the fastest growing yearly earnings are Sales and Office occupations. Sales and Office earnings grew by 46%, however the number of Encinitas residents working them has decreased. This supports a claim that Beacon heard from interviews with residents – that middle class and white-collar jobs are being priced out of Encinitas.

Figure 12: Median Earnings by Occupation



Source: American Community Survey: Analysis by Beacon Economics

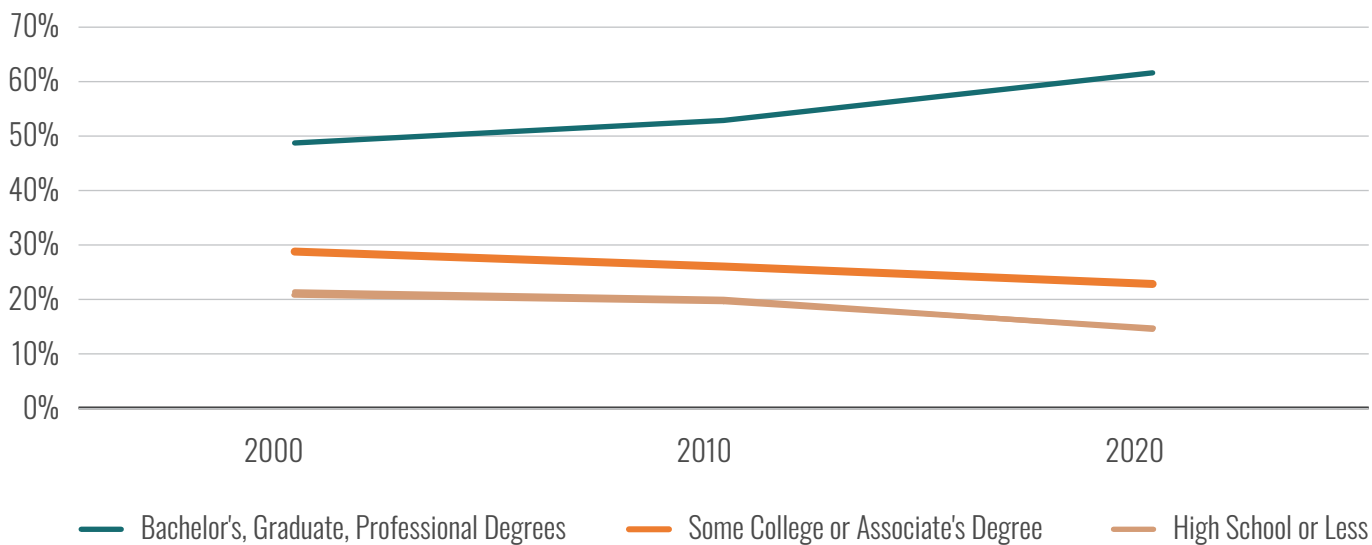




Some interviewees also voiced their concern that high paid tech workers were moving to Encinitas to work remotely. The data does not show a large increase in tech workers, with the total amount being just below 1,000. The number of tech workers is relatively constant between 2010 and 2021.

With the increase in management and professional jobs, it is not surprising to see that the average level of educational attainment is increasing in Encinitas as well. While higher education level by itself does not directly equate to higher incomes, it is a sign of rising socioeconomic level and is highly correlated with higher paying jobs. In Encinitas, the median wage of someone with a bachelor's degree is 40% higher than someone with a High School Diploma. There are many vital jobs in Encinitas that do not require a college degree and are more accessible to everyone. However, residents will increasingly have to pursue higher education degrees to obtain the higher paying jobs that are necessary to pay for the higher housing costs in Encinitas.

**Figure 13: Encinitas Education Level**



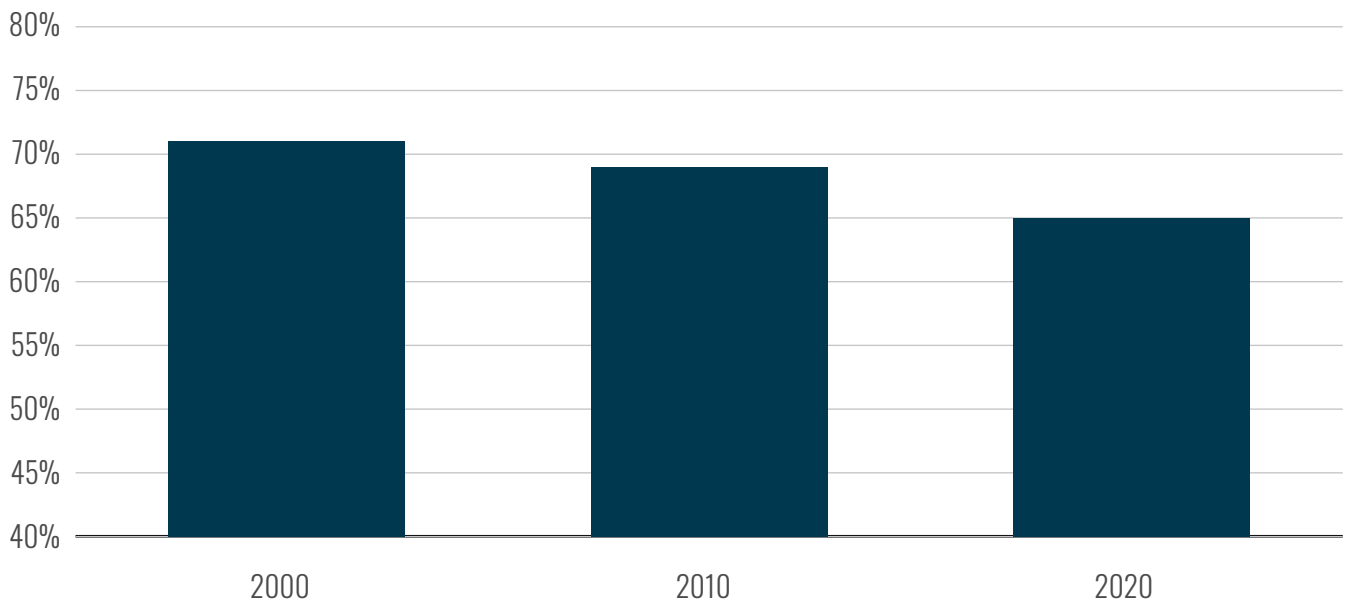
Source: American Community Survey: Analysis by Beacon Economics



The average age of the city is increasing. In the year 2000, the average age was 37, then 39 in 2010, and 41 in 2020. This is a symptom of the fact that older folks tend to be wealthier. The high cost of buying a house in Encinitas means that typically only older, wealthier people can afford them, broadly speaking. This also means younger families are priced out of housing.

More retired households are moving to Encinitas, which is apparent in the decline in the number of residents who are in the labor force, and the rise in 65+ residents who moved to Encinitas in the last few years.

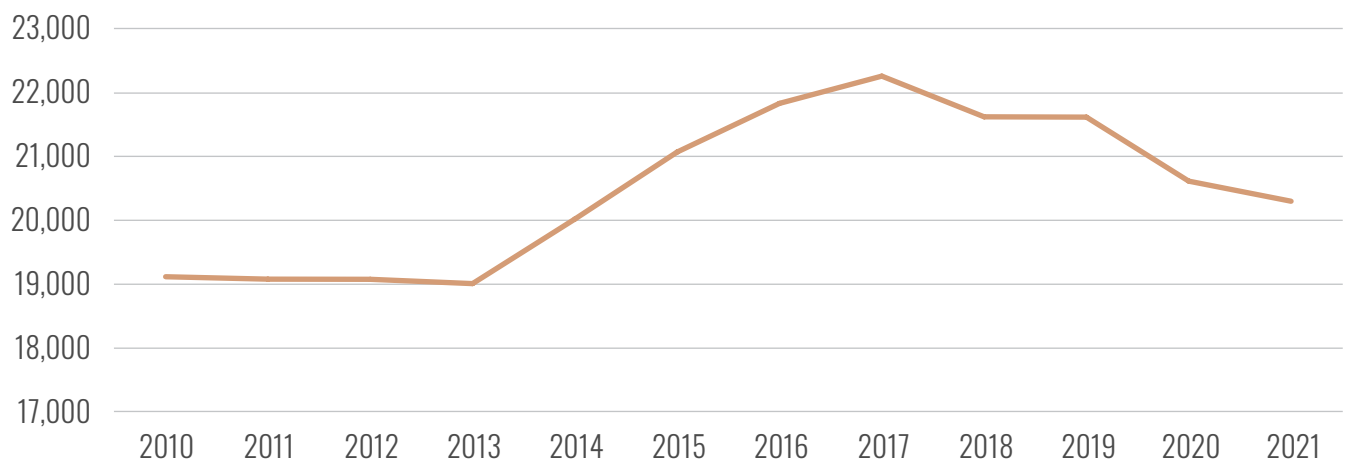
**Figure 14: Labor Force Participation for People 16 years or Older**



Source: American Community Survey: Analysis by Beacon Economics

Likewise, the number of employed persons in Encinitas peaked in Encinitas in 2017 around 22,000 and dropped since.

**Figure 15: Total Employment**



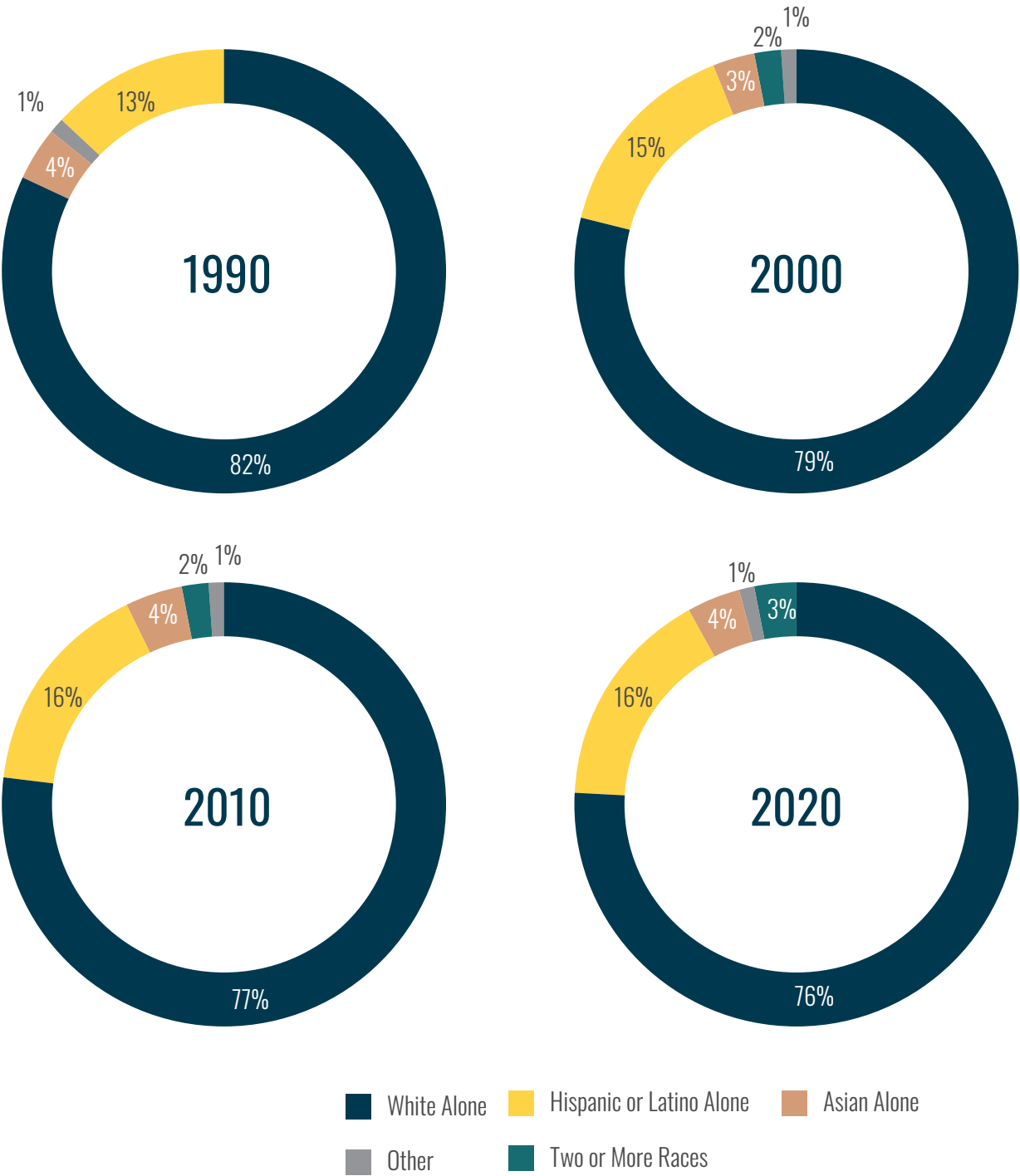
Source: American Community Survey: Analysis by Beacon Economics



The racial makeup of the city has only morphed slightly over the past three decades. In 1990 the White population was 82%. By 2020 it had decreased to 77%. The Hispanic population has grown the most. Starting at 13% in 1990, by 2020 the Hispanic population has grown slightly to 16%. People who identify as Asian, two or more, or “other” has remained more or less constant over the past 30 years a 4%, 3%, and 1% respectively.

Encinitas has many more White residents than the rest of San Diego County, relatively speaking. San Diego County as a whole is 47% White and 37% Hispanic, and like Encinitas, the Hispanic population is growing, whereas the White population is gradually shrinking.

Figure 16: Racial Makeup of Encinitas







While the number of Hispanic families is increasing in Encinitas, they tend to be more at-risk of displacement due to lower levels of income. The average Hispanic household income was \$99,000 in 2020 and was \$130,000 for White households. Education attainment also differs between white and Hispanic families. 68% of people who identify as White alone in Encinitas have a college degree. In contrast, only 32.6% of people who identify as Hispanic have a college degree in Encinitas.



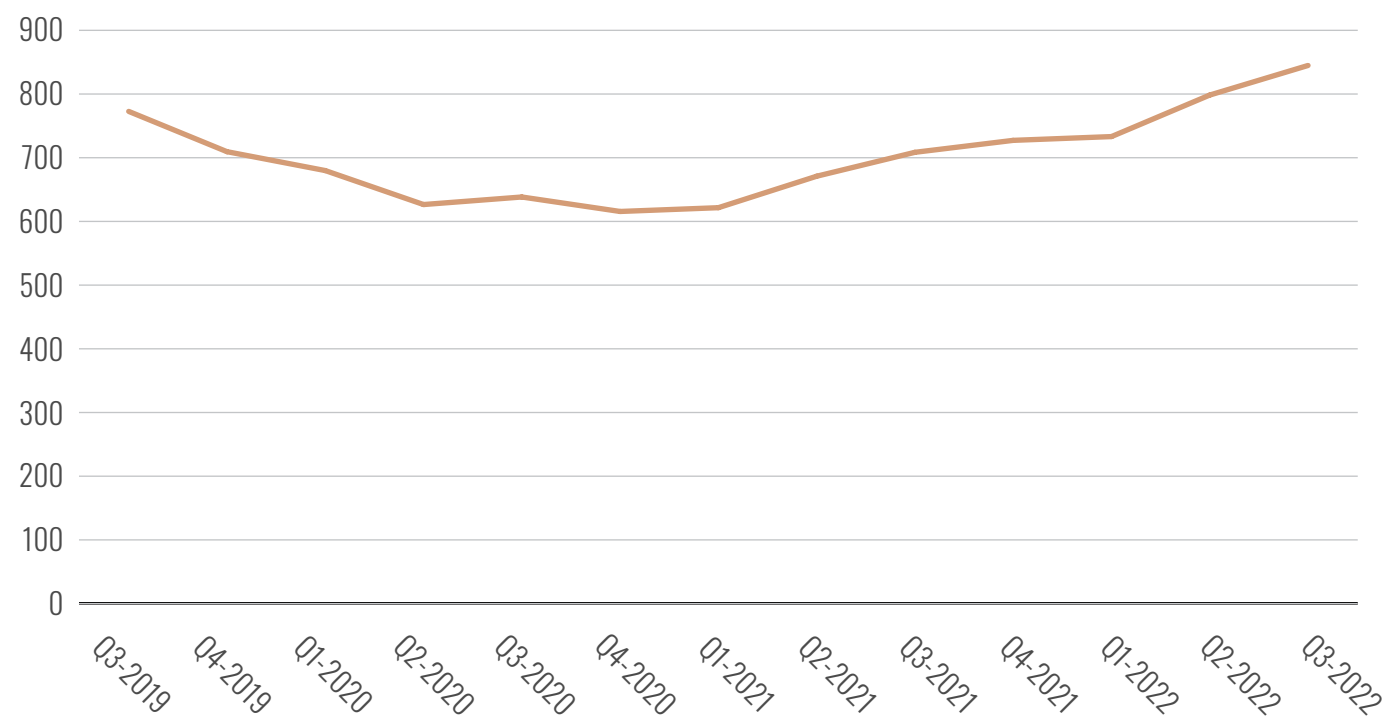
# 1.6 Short Term Rentals

Encinitas has recently passed rules regulating the number and characteristic of short-term rentals, commonly used by vacationers looking to enjoy the Encinitas coastline. Short-term rentals influence displacement risk because they reduce the supply of housing in the city. Beacon Economics has gathered data on this topic and presents the current snapshot of the market below.

There were 646 active short-term rentals in Encinitas in November 2022. Across the third quarter, there were a total of 846 units at one time or another, which is the largest amount yet. This represents 3% of the total housing stock in Encinitas. The number of short-term rentals decreased going into the COVID-19 years but has risen steadily since Q2 of 2021.

478 short term rentals have registered with the City. Therefore, the actual number of short-term rentals is double what has been legally approved. The city should consider increasing its enforcement of its new short-term rental laws.

Figure 17: Total Short-Term Rental Units

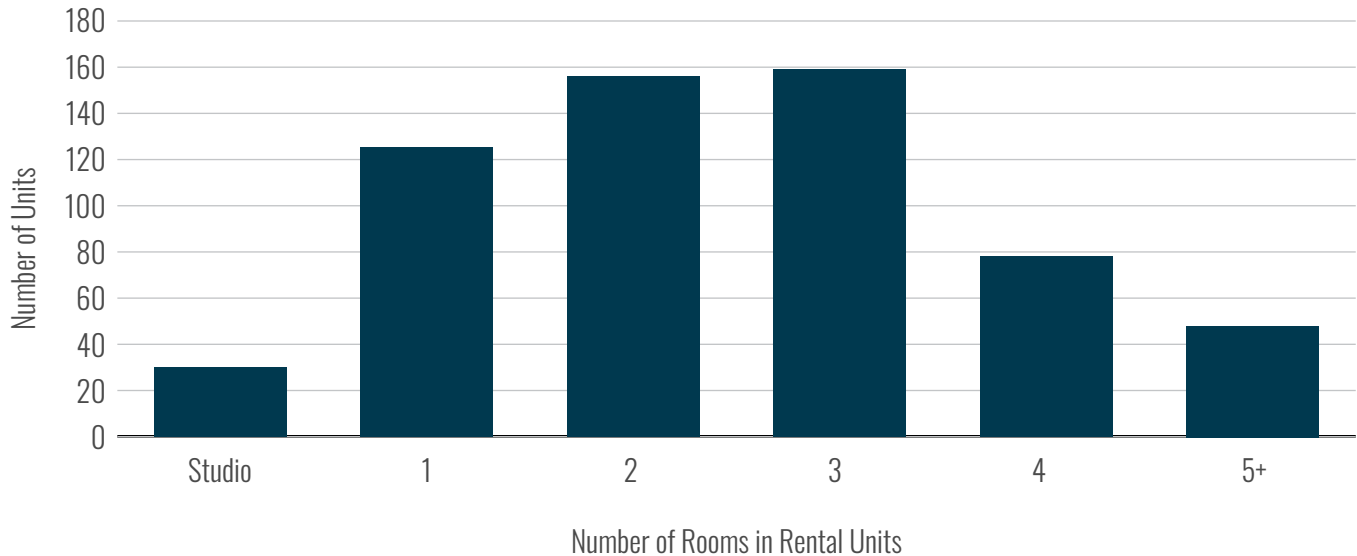


Source: AirDNA: Analysis by Beacon Economics



The majority of these rentals are by the beach, and most of them are 2- or 3-bedroom houses. Just under 90% of rentals list the entire house. 9% offer a private room and less than 1% list a shared unit. As of the third quarter in 2022, 78% of listings were occupied, but the occupancy rate goes up above 90% during the summer months. Most are booked about 50 to 60 days in advance.

**Figure 18: Short-Term Rental Size**



Source: AirDNA: Analysis by Beacon Economics

The average price of short-term rentals is about \$500 to \$600 per night. This rate has been slowly increasing over the last couple of years. Of course, each summer sees a bump in rates as Californians flock to the beach.

**Figure 19: Average Daily Rate of Short-term Rentals**



Source: AirDNA: Analysis by Beacon Economics

This translates to an average of roughly \$10,000 of revenue per month, for a short-term rental house, or roughly \$8,000 of monthly revenue for an apartment. There is a lot of variation within these numbers. The highest grossing 10% of short-term rentals make over \$25,000 in revenue per month. The lowest 25% make around \$4,800.





## 2. Immigration and Emigration





The trends discussed above show important shifts in the characteristics of the Encinitas population. They illustrate a change in the overall demographic composition of the city, but they do not explicitly track changes in the types of people moving in and out of Encinitas. Knowing exactly who is immigrating and who is emigrating is important to understanding which parts of Encinitas are being displaced. The following section focuses on these two populations for this reason. Beacon Economics isolated all households that entered and left Encinitas using the American Community Survey.

To start, the number of people moving into and out of Encinitas has been roughly the same each year for the last 10 years. Roughly 7,500 people, or 12% of the total population, have moved both into and out of Encinitas each year over the last decade. This rate is about average across California municipalities, and slightly less than the County's rate (14.5%).

About 400 (6%) of the people who moved into Encinitas in 2020 moved from overseas, about 1,300 (16%) moved from another state in the United States, and another 700 (9%) moved from somewhere in California. The other 66% moved from elsewhere in San Diego County. Other small cities in Southern California have similar break downs for their immigrant populations, although Encinitas does differ slightly by having higher rates of immigrants coming from within California and lower rates of immigrants coming from other states.

Households that identify as White are the largest immigration demographic. Over the past ten years there is a gradual decline in White households moving into Encinitas except for 2021 where there is a large decrease in immigration. Asian, Black, Hispanic, other, and two or more households have consistent immigration numbers.

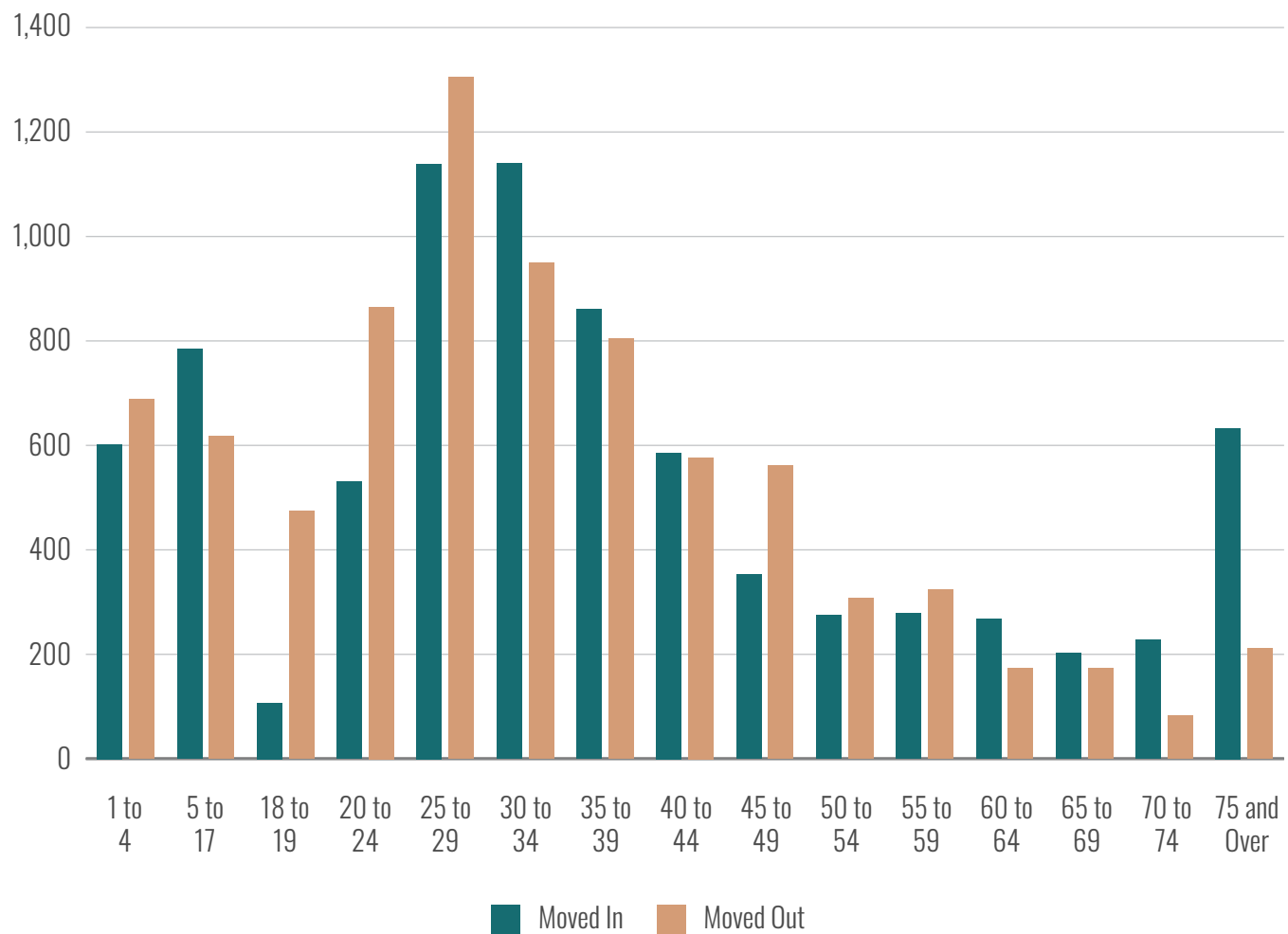


## 2.1 Emigration Demographics

Of those who have moved out of Encinitas over the last ten years, 68% moved to another location in the County, 16% moved to another County in California, and 16% moved to another state altogether. Compared to other Californians, people leaving Encinitas are much more likely to move to another location within the County. We do not have survey data asking if these people moved because of housing prices, but the fact they moved just outside Encinitas suggests it could have played a role.

Over the last ten years, the average age of someone moving out of Encinitas was 33, while the average age of someone moving into Encinitas was 36. Thus, the average age of the city has slowly gotten older over time. This helps explain the aging trend noted earlier on page 11. Figure 19 clearly identifies a drastic increase of new residents 75 and older as compared to the decline of new residents between the ages of 18 and 19.

Figure 20: Age of Immigrants and Emigrants

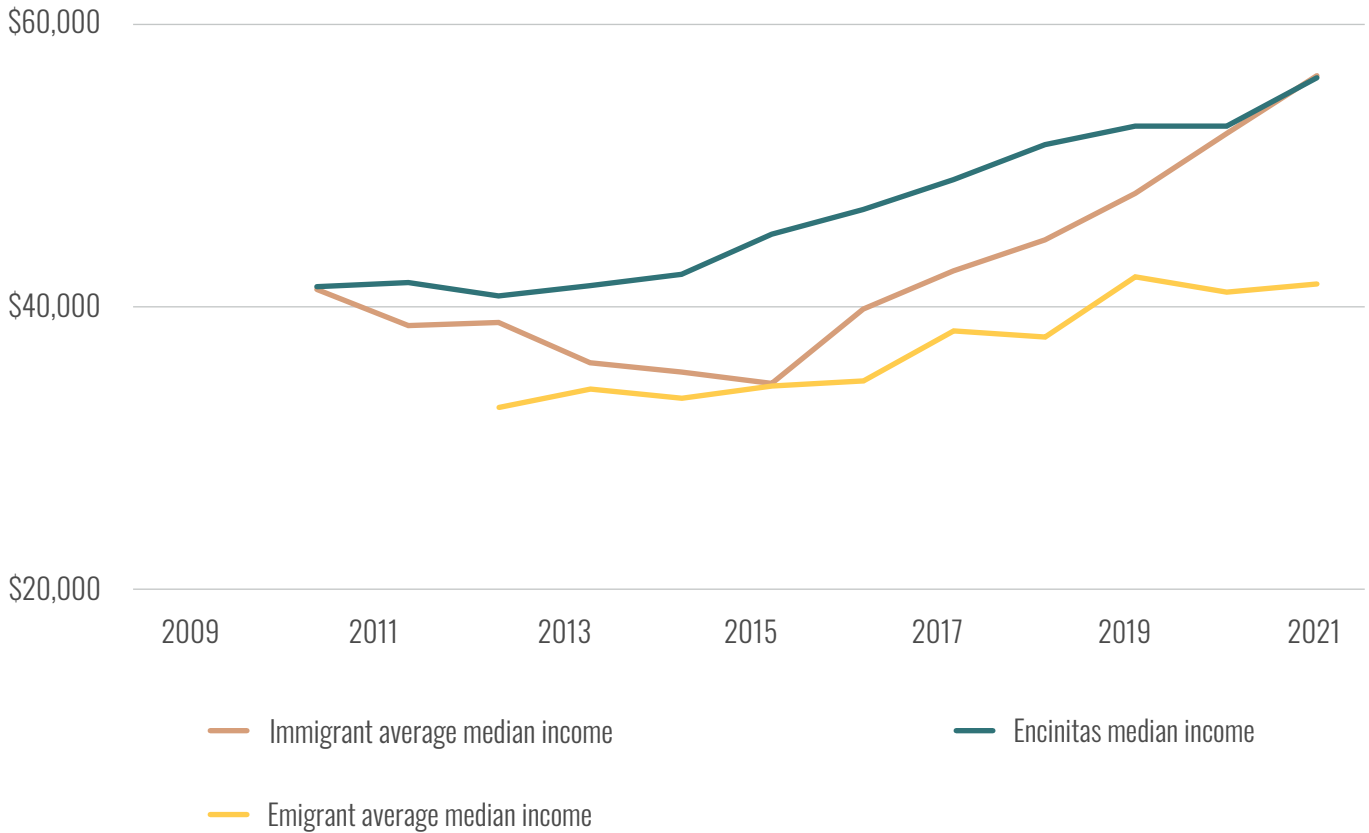


Source: American Community Survey: Analysis by Beacon Economics



Next, Beacon looked at the incomes of those entering and exiting Encinitas. The ACS collects incomes for migrants at the individual level. Emigrant incomes were not recorded until 2012. As illustrated in Figure 20, the incomes of those moving into Encinitas are considerably higher, 42%, than those leaving. It is safe to assume that this trend will continue for the foreseeable future. People moving from within California and from abroad had higher median incomes than locals in Encinitas. As mentioned at the beginning of this section, migrants from outside of San Diego County are small, but their financial impact is growing.

**Figure 21: Income by Migration Status**



Source: American Community Survey: Analysis by Beacon Economics

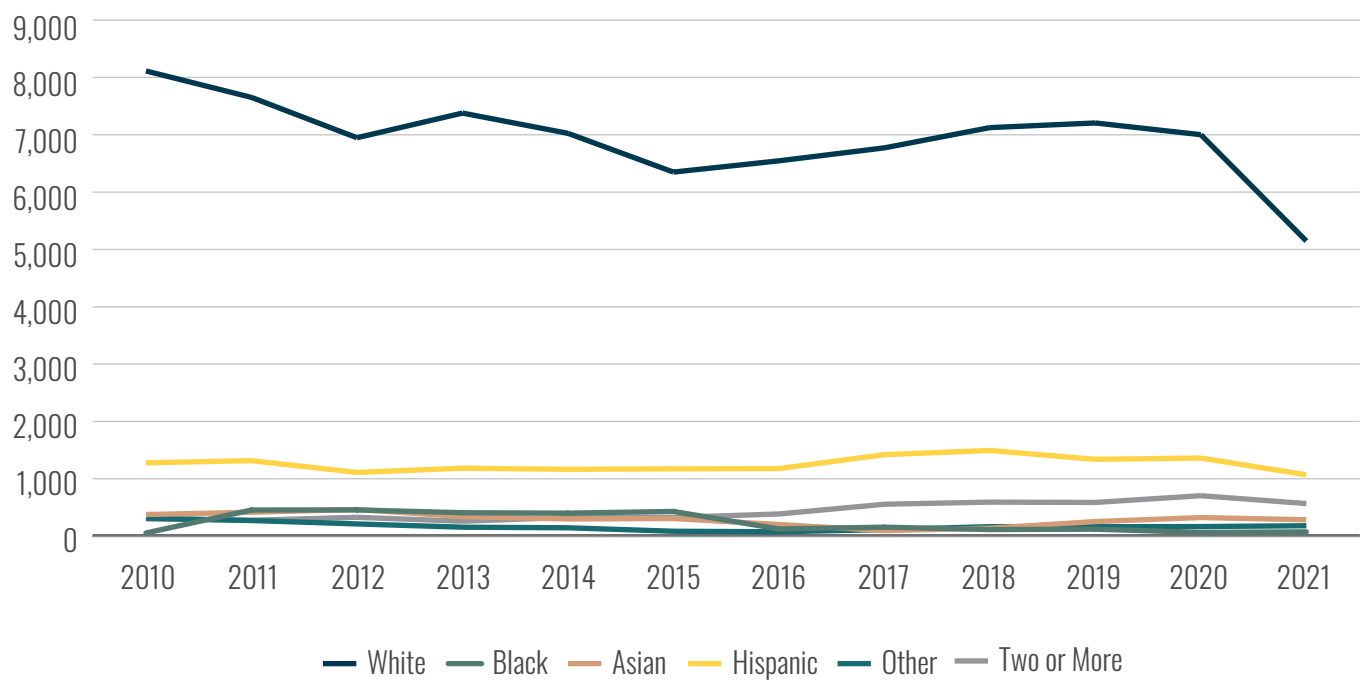
Note: In order to have comparable groups, the average median income for three emigrant and immigrant groups was taken. This does not represent the true median income for the two groups, but is very similar, the only available metric that can be used to compare<sup>6</sup>.

<sup>6</sup> Strange, Rachel, IN Context "Data Don'ts: When you Shouldn't Average Averages" <http://www.incontext.indiana.edu/2013/mar-apr/article3.asp>



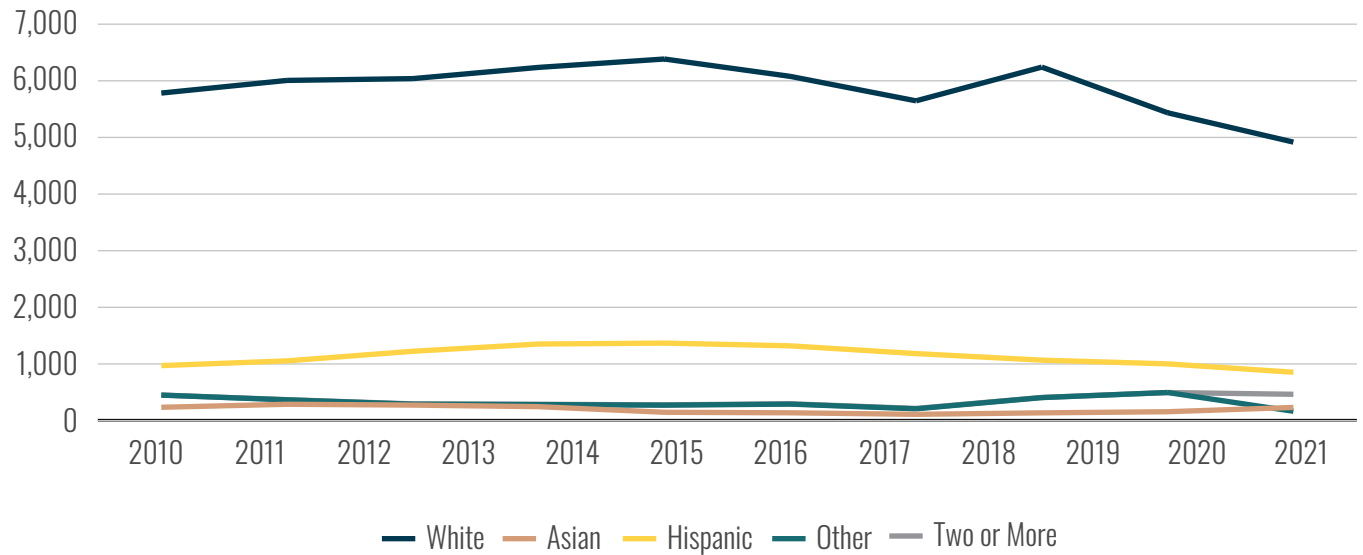
While most households moving out of Encinitas are white, most households moving into Encinitas are white as well. Hispanics households are the fastest growing immigrant group. Moving forward, the percentage of Hispanic households will continue to grow, assuming current trends stay the same. In 2021 there was a significant drop in immigration and emigration, which can be attributable to Covid. We do not expect Covid to have long lasting impacts on the movement of people into and out of Encinitas.

Figure 22: Race and Ethnicity of People Moving INTO Encinitas



Source: American Community Survey: Analysis by Beacon Economics

Figure 23: Race and Ethnicity of People Moving OUT of Encinitas



Source: American Community Survey: Analysis by Beacon Economics



# Spotlight: Evictions in the City of Encinitas

Renter evictions can be broadly categorized into two main types: involuntary or no-fault evictions and voluntary or fault-based evictions. Involuntary evictions typically occur through circumstances beyond the tenant's control, while voluntary evictions are the result of actions or decisions made by the tenant. Because legal entities are not always involved, there are no official statistics accounting for all evictions, and it is difficult to know how many occur. Data from the Eviction Lab states that there are 1.7 evictions per 100 renters in San Diego County. This is roughly the same amount as in Orange County, Ventura County, and slightly lower than the 2.3% in Los Angeles County.

Beacon Economics discussed evictions with the Legal Aid Society of San Diego (LASSD), which assist low-income families with eviction defense. They help roughly 50 to 60 clients each year in Encinitas, or roughly 0.6% of Encinitas renters. We do not know the total number of renters evicted in Encinitas, but we know that 37% of LASSD's clients were facing eviction for nonpayment of rent, and 34% were being evicted for no-fault reasons such as remodeling or the owner moving into the unit. The remaining clients were struggling with issues such as the termination of Section 8 Vouchers, habitability issues and fair housing.

With regards to demographics, LASSD data shows that 15% of renters facing eviction are Hispanic, 70% are White, 9% are Black, and 3% are Asian. A disproportionate amount of those facing eviction in Encinitas are women, 65%, compared to 45% of men. Further, while only 3.6% of residents in Encinitas have disabilities, 42% of LASSD clients are disabled. This implies disabled renters in Encinitas are twice as likely to face eviction as non-disabled renters. Unsurprisingly, a majority of LASSD clients are below the federal poverty line.

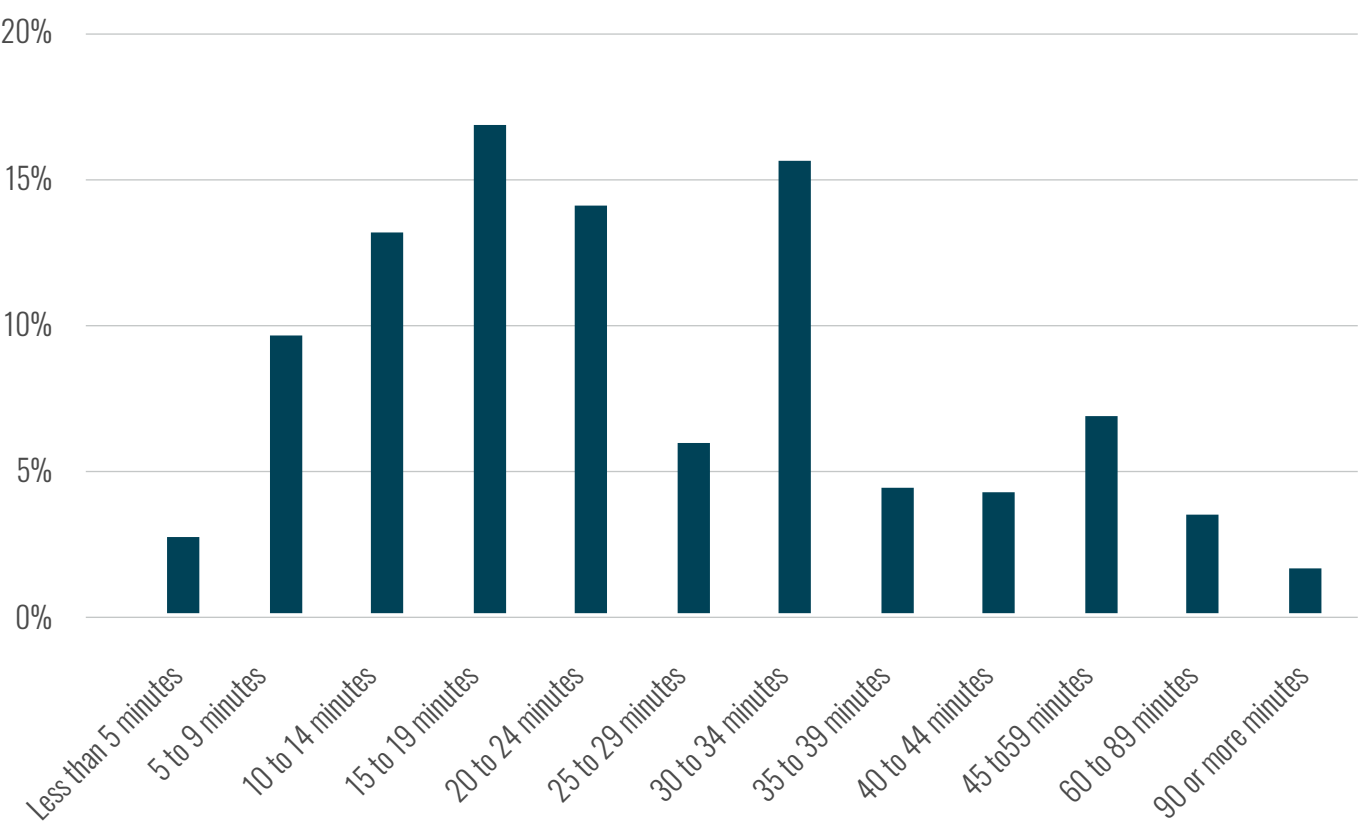
While these data do not account for the full population facing evictions in Encinitas, they help provide a rough image of those groups who are most likely to face displacement risk. Better data on who is facing eviction and for what reasons, would enable policy makers to craft more effective tenant protection ordinances. LASSD noted that many tenants do not know the legal protections they have, and many situations they face are not clearly outlined in existing statutes. By establishing a robust eviction data collection mechanism, Encinitas could identify those most at risk of eviction displacement and close outstanding loopholes used by landlords.



## 2.3 Commuting Patterns

In 2019, roughly the same number of people commuted into Encinitas as those who commuted out. 22,040 non-Encinitas residents were employed in Encinitas, and 23,147 Encinitas residents worked outside of the city. Only a small proportion, 4,115, lived AND worked in the city. While the proportion of people commuting in and out of Encinitas has remained largely the same for two decades, the number of people living AND working in the city has shrunk slightly. In 2002, 18% of Encinitas' workforce lived and worked in the city, but that number was 15% in 2019.

Figure 24: Travel Time to Work - 2021



Source: American Community Survey: Analysis by Beacon Economics

The average commute time for someone living in Encinitas is 25 minutes. From 2010 to 2021, the share of workers commuting longer than 35 mins has been slowly growing. Longer commute times are a sign of displacement. In 2010 about 18% of workers had long commutes. This increased to 20% in 2021.

This data only looks at workers that are not working from home. 23% of Encinitas residents work from home, which is double the County and State average.





# 3. Displacement Risk



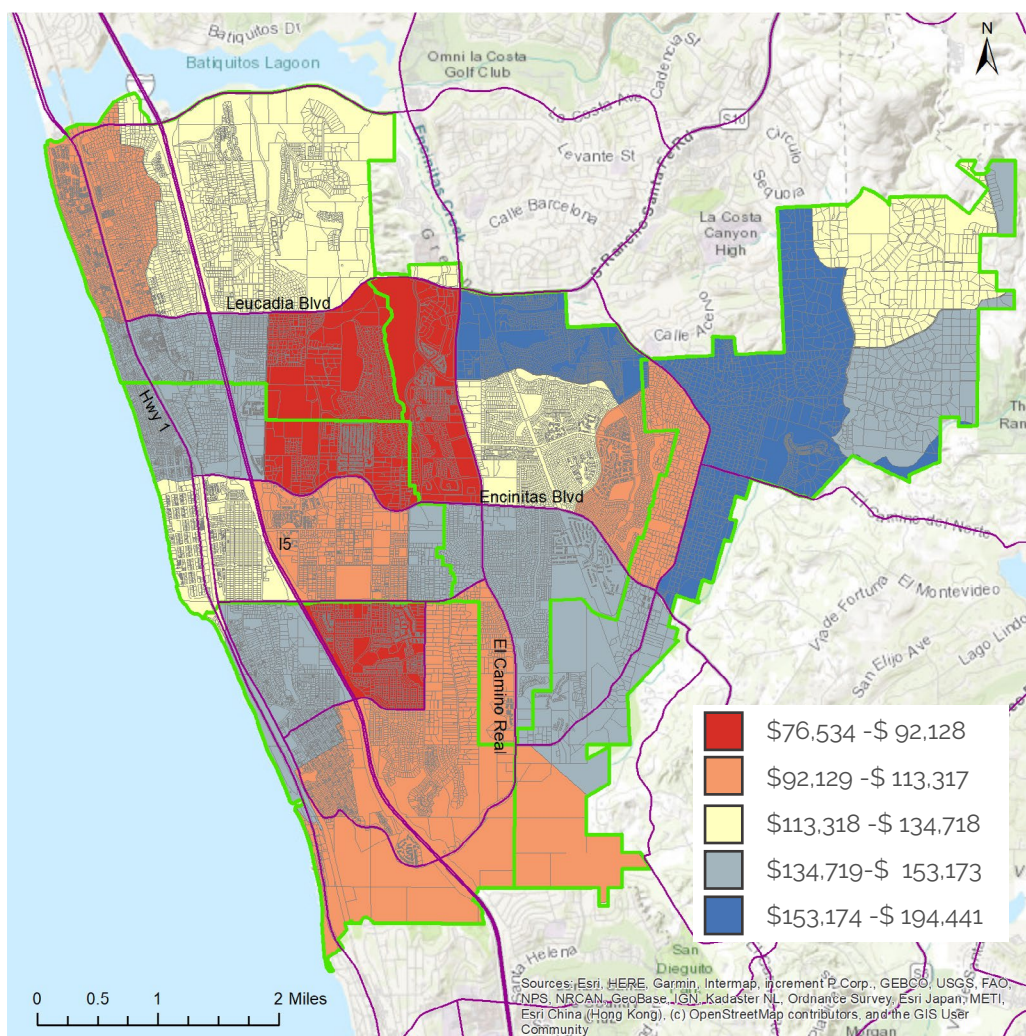
While the above sections illustrate who has been displaced in the past, the following section uses a composite index approach to identify key Displacement Risk factors, and which neighborhoods are at the greatest risk of further displacement.

Researchers have used many different methodologies to measure Displacement Risk across the United States. One commonly applied method is based on the Social Vulnerability Index (SVI) developed by the United States Centers for Disease Control and Prevention. The SVI uses 16 socioeconomic metrics to identify populations that are most at-risk to prepare for emergencies. This approach provides a validated theoretical framework to apply to Encinitas. However, Encinitas is not at risk of an impending emergency, nor is that the focus of this analysis, so the socioeconomic factors have been customized for the context of Encinitas. Economic factors are more heavily weighted in the model used here, and disaster related issues such as transportation and environmental issues are removed.

Beacon Economics divided the city into census tracts, the smallest geographic levels for which there is official government data. There are 19 census tracts in the city as of 2020. The green lines represent the five Encinitas Communities (Cardiff-by-the-Sea, Leucadia, New Encinitas, Old Encinitas, and Olivenhain).

Because economic forces are the primary displacement driver, median income is included in the index. Red indicates lower income neighborhoods, and blue indicates higher income neighborhoods. As one can see, the highest median incomes tend to be in the eastern arm (Olivenhain community) of the city.

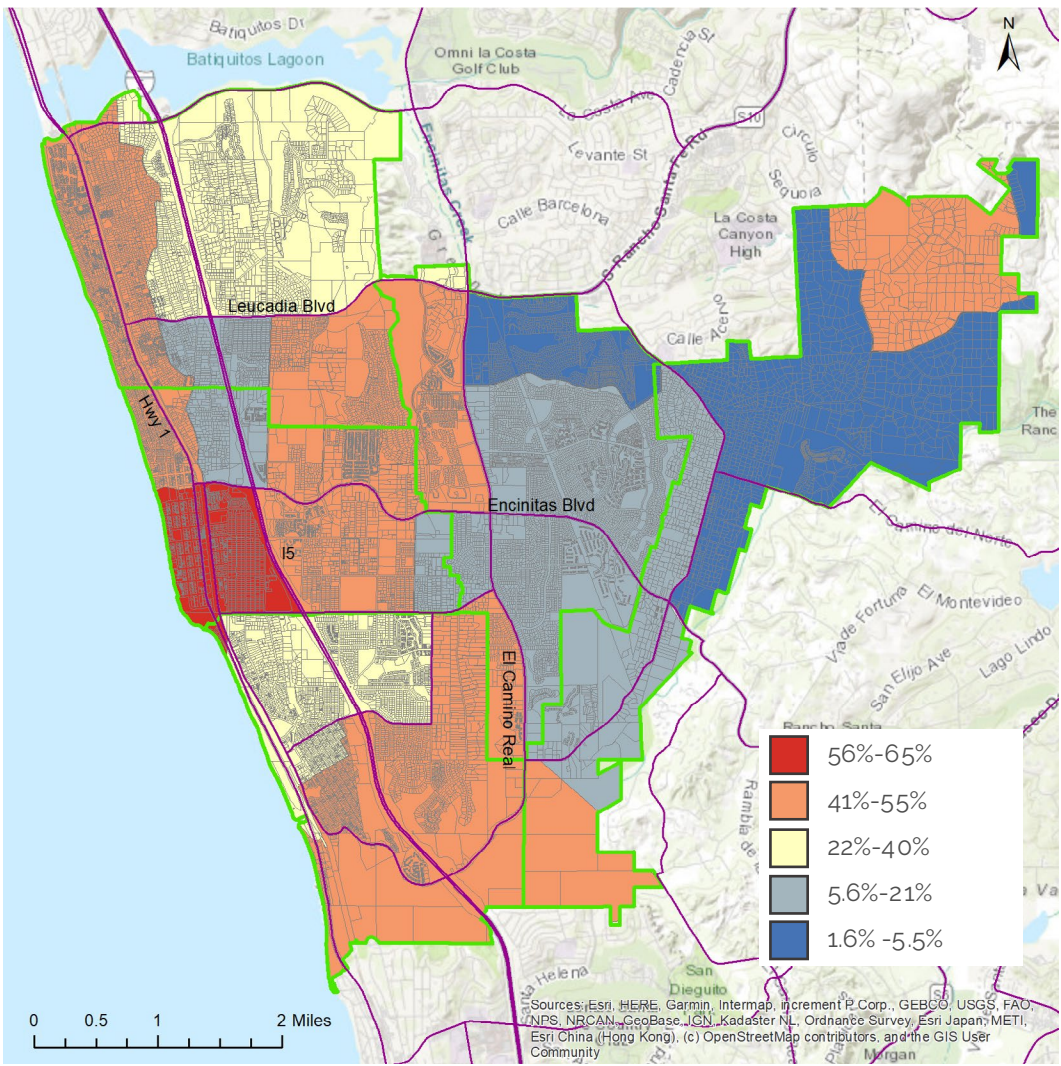
**Figure 25: Median Household Income**





The next indicator that is considered is the percentage of residents that rent their homes, as opposed to own their homes (with or without a mortgage). Residents who rent their housing are at greater risk of displacement because they need to keep renewing their leases. In some neighborhoods in the east area of the city, there are almost no renters, whereas more than half of residents in downtown rent.

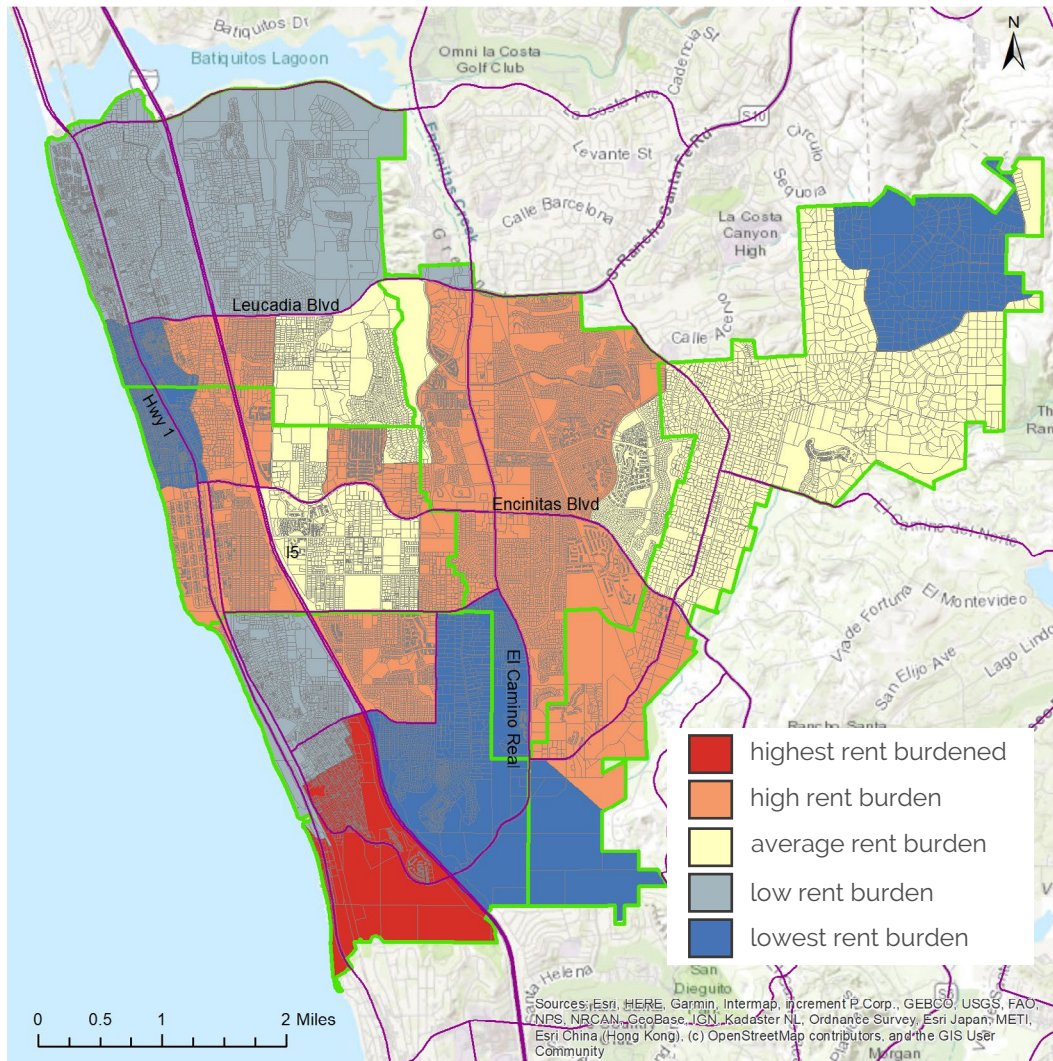
Figure 26: Percentage of the Population that Rents





Next, Beacon Economics calculated who is most rent burdened in a relative manner. Beacon Economics modelled the relationship between how much households typically spend on rent, compared to their annual incomes. Using this relationship, we identified which neighborhoods pay a greater percentage of their income on rent. Those who are paying a greater percentage of their income are more rent burdened and are shaded in red and dark orange colors. These neighborhoods are more at-risk of displacement than the blue and grey colored areas.

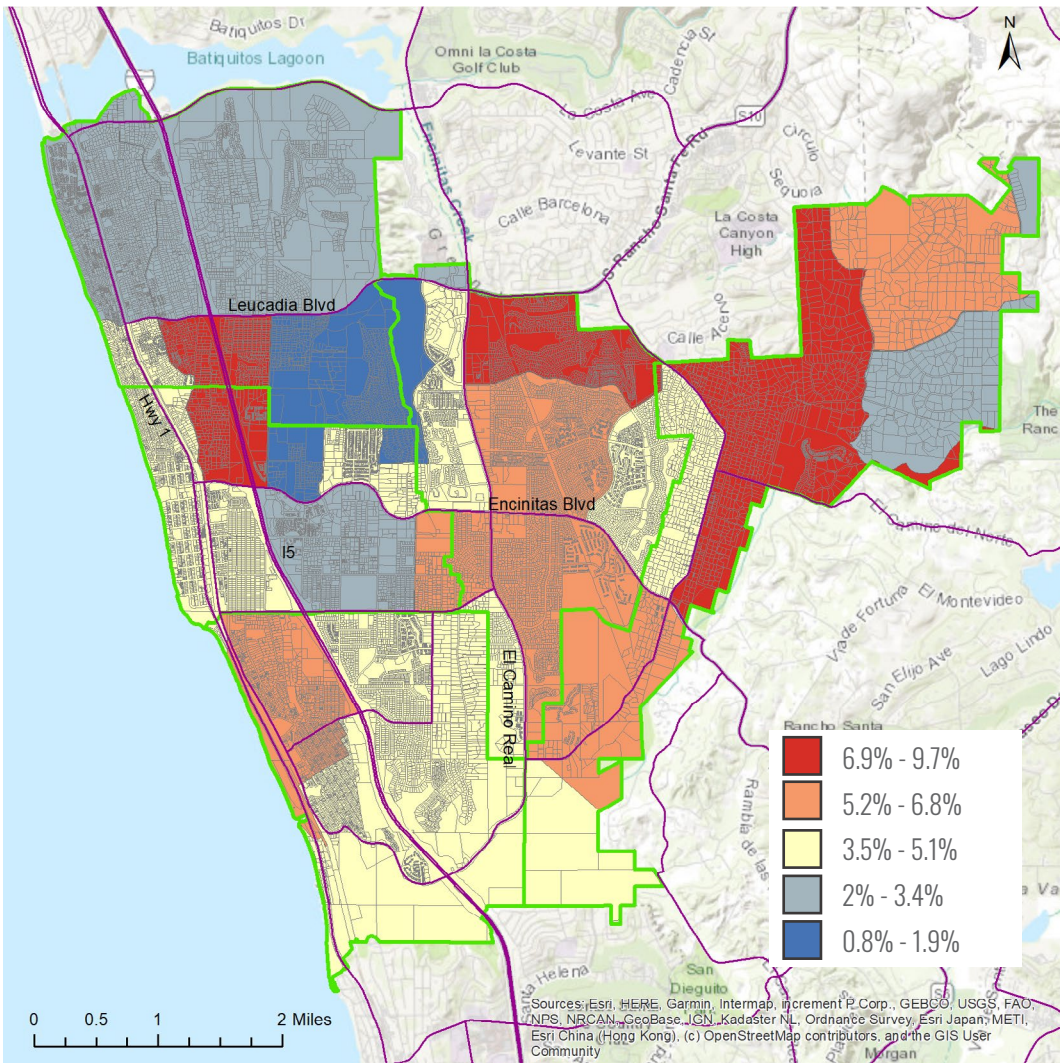
**Figure 27: Relative Rent Burden**





The next indicator looked at is unemployment. The areas with high unemployment are spread out throughout the city. Please note that unemployment includes people who want employment but cannot find it. Unemployment does not include who are not searching for work such as people who are retired.

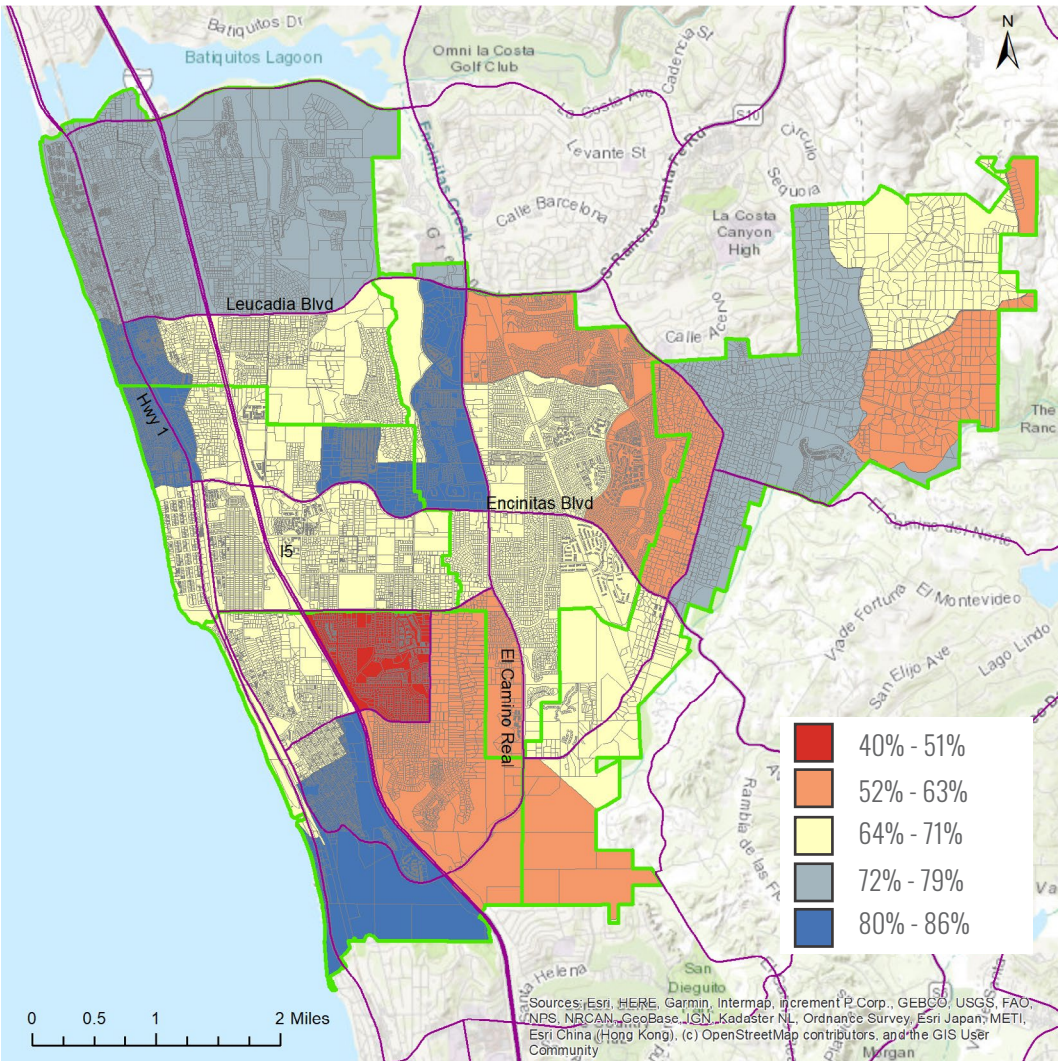
Figure 28: Unemployment Rate





Another factor that is included is the percentage of homeowners who still have a mortgage on their house. Darker areas represent areas where more homeowners have a mortgage. As one can see, over half of homeowners in Cardiff-by-the-Sea no longer have a mortgage on their house. Obviously not having a mortgage reduces a household's monthly payments considerably. However, residents living on fixed incomes, often retired people, still face financial pressure from rising property values, even if their mortgages are paid off. Rising property values equates to increased property taxes, which consume a larger and larger portion of fixed incomes.

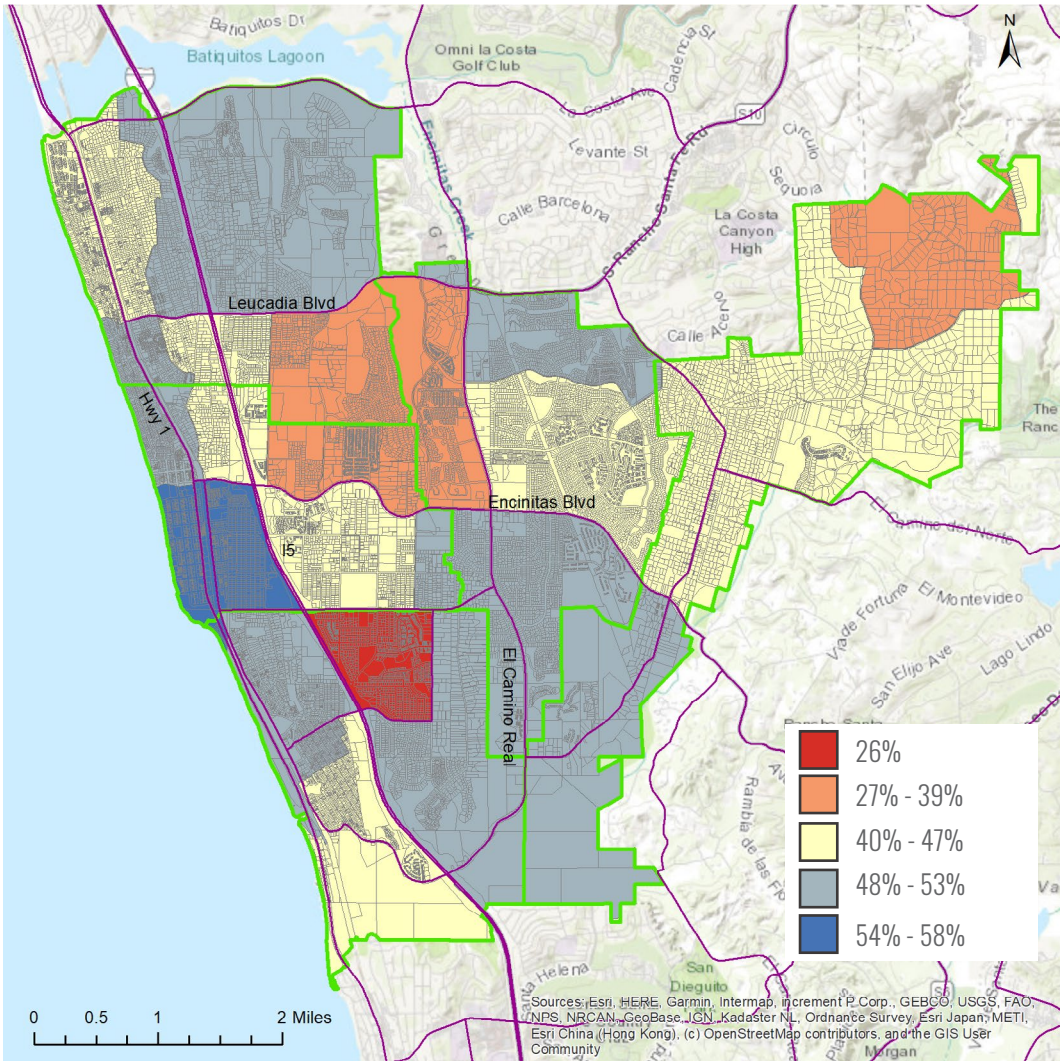
Figure 29: Homeowners Without a Mortgage





As discussed, the level of educational attainment is an indicator of current and potential future earning potential. The darker blue areas identify neighborhoods where a greater percentage of the population has a college degree or higher.

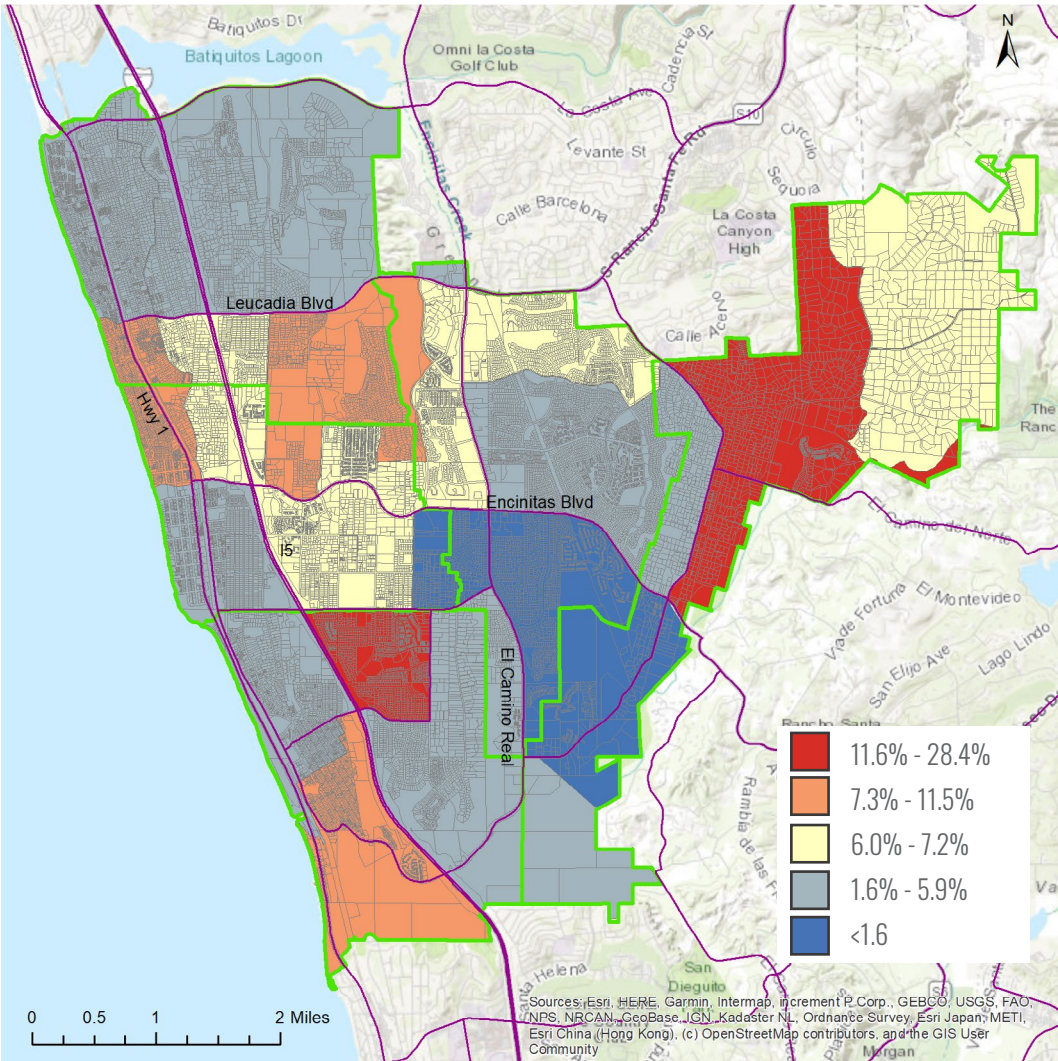
Figure 30: Percentage of Population with a College Degree





Last, the proportion of the population that is Hispanic is included. Hispanics face potential racial discrimination in housing, even though Hispanics are only a small proportion of the population in most census tracts. They are at high displacement risk because they tend to have lower incomes, educational attainment levels, and proficiency with English.

Figure 31: Percentage of the Population that is Hispanic





## 3.1 Neighborhoods at Risk of Displacement

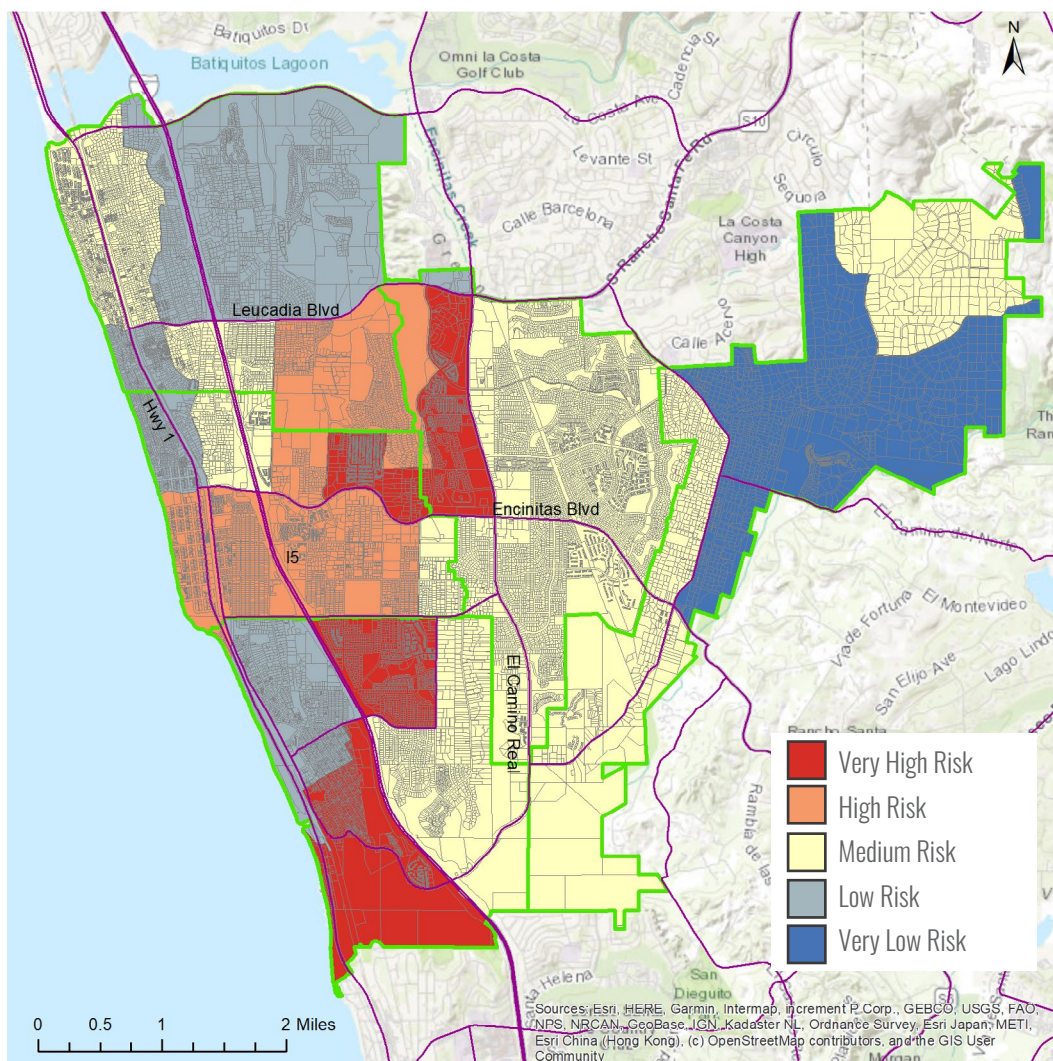
Beacon Economics generated a composite index score taking all of these factors together and weighing rent and income-related variables highest. The resulting map illustrates the general risk of displacement in each neighborhood in the city. The redder-colored areas are at high risk of displacement, whereas the bluer-colored areas face low displacement risk.

The neighborhoods east of the 5 that are south of Santa Fe Dr, west of Lake Dr, and north of Birmingham Dr face high displacement risk. This is largely due to the relatively low incomes, very low levels of educational attainment, and a high number of homeowners still having mortgages.

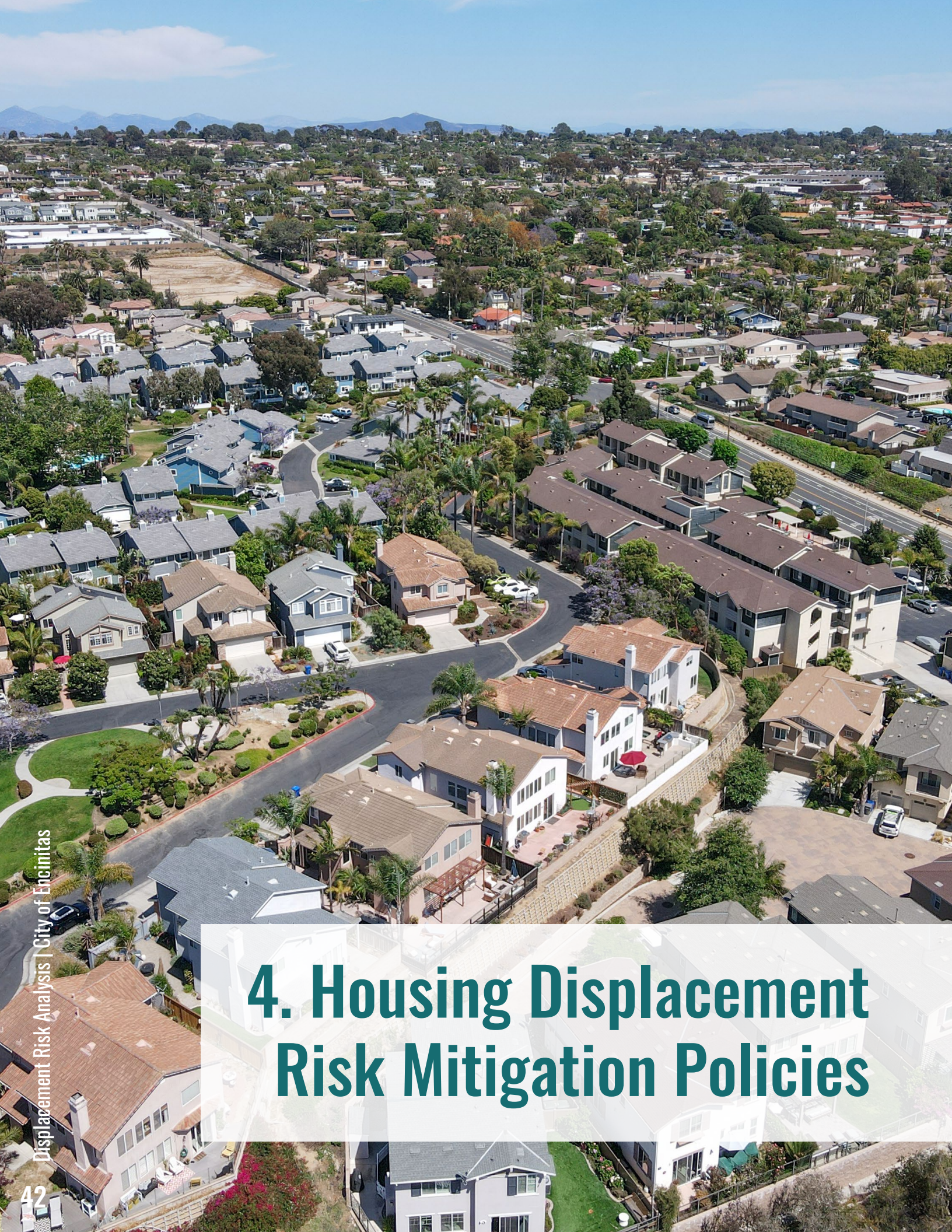
The residential areas to the west of El Camino Real and north of Encinitas Blvd face high displacement risk. This area has the lowest median income of all census tracts in the city.

Cardiff-by-the-Sea has a high displacement risk. This is largely because the median incomes are well below average incomes in the city, and yet, the rent is about average with the rest of the city. In other words, the neighborhood faces very high rent, compared to its income.

**Figure 32: Displacement Risk**







## 4. Housing Displacement Risk Mitigation Policies



When it comes to Housing Policy, there are no simple solutions. Every policy has trade-offs, costs and benefits, and winners and losers. People's homes are such an integral and foundational component of their lives and finances, it is understandable why Housing Policy can be contentious. Moreover, there is a large amount of subjectivity when it comes to deciding what type of neighborhood people want to live in, so inevitably there will be differing opinions.

This report is not a comprehensive urban development plan for Encinitas. This report is designed to focus on Displacement Risk. Therefore, the policy discussions in this paper are explored through the lens of displacement, and not overall urban planning. Narrowing our perspective to a targeted objective helps make the policy solutions to displacement more clear. This section first discusses causes of Displacement Risk, the second section discusses policy solutions, and the final section outlines state legislation that impacts displacement and housing policy.

## 4.1 Housing Displacement Risk Solutions

In considering different policies, it is useful to review the basic underlying economic principles that determine prices so it is clear how different policies affect housing costs. Classic economic theory tells us that the price of any market good is based on the demand and supply for that good. If the supply of a good goes up (and demand stays the same) then the price will go down. If the supply of a good goes down (and demand stays the same) then the price will go up.

In the case of the Encinitas housing market, demand has gone up over time. This is a sign of a successful community. Its amenities, character, and proximity to the beach makes Encinitas a desirable place to live. However, the supply side of the equation has not changed much in the last couple of decades. As mentioned at the beginning of the report, only 800 housing units, or 3% of the current housing stock, were added since 2010 (although a few thousand new housing units have been approved since 2021). This means the Encinitas supply curve is vertical. As the demand has increased in Encinitas, the supply has not meaningfully increased as well. Thus, it comes as no surprise that the price of housing has increased.

This basic principle of Economics is important for two reasons. First, it explains why housing costs have risen so much over the last couple of decades. Second, it is important to keep in mind when considering how new housing policy will impact housing costs – will a policy affect supply, demand, or some combination of the two? For example, some localities have imposed restrictions on foreign ownership of properties. This decreases demand in the market by reducing the number of potential buyers. Encinitas recently imposed more restrictions on short-term rentals. This prevents a reduction in supply, by keeping housing units available to local residents. The supply and demand framework also helps us remember what policymakers can control, and what they cannot. The Encinitas City Council has little control over the level of demand for housing in Encinitas. Most of the demand is determined by large regional forces such as macroeconomic conditions in Southern California, regional immigration, and national monetary policy that impacts mortgage rates. While Councilmembers vote on legislation that affects education, health, and safety issues, which indirectly affect the demand for housing over the very long term, they have a relatively small ability to adjust demand.



On the other hand, the City Council has the ability to directly change the level of supply. By approving and facilitating new housing, the city significantly impacts the supply side of the equation and lowers housing costs.

This is also why rent control policies do not have positive long-run effects for renters, and why Beacon Economics does not recommend them. Rent control policies do not fundamentally alter the natural underlying dynamics of the housing market. Research has shown that landlords substantially reduce investment in rent-controlled areas, leading to lower quality and lower quantity of housing. Ultimately this reduction in housing leads to a net increase of housing rents across the city on average.<sup>7</sup>

Housing costs are the main driver of displacement in Encinitas. Therefore, if the city wants to lower the risk of displacement in Encinitas, it should build more housing. Building more housing will have a direct beneficial impact on lowering displacement risk. If Encinitas does not build more housing, displacement and displacement risk will continue to rise across the city. Displacement not only hurts the households that are forced out of their homes, but it also has negative spillover effects into the rest of the community.

For example, homelessness is a direct result of a lack of housing. One in three displaced households reported some period of homelessness in the two years following their displacement.<sup>8</sup> Increasingly, research shows that the availability of housing is the single largest predictor of homelessness rates.<sup>9</sup> Researchers have studied the potential drivers of homelessness across the United States, looking at factors such as, mental illness, drug use, poverty, weather, generosity of public assistance, and low-income mobility. None of these factors have as much explanatory power as the availability and cost of housing.<sup>10</sup> Some of the areas with the highest levels of poverty (Detroit, West Virginia) have the lowest homelessness rates in the US. This is because housing is very inexpensive in these areas. On the other hand, some of the richest cities in the Country (San Francisco, Santa Clara) have the highest levels of homelessness. This is because housing is very expensive in these cities.

As of this report, the latest data on homelessness is the 2022 point in time count for Encinitas. The count found 113 citizens experiencing homelessness.<sup>11</sup> Men and minorities are overly represented in the homeless data. Asians, African Americans, and Pacific Islanders make up way more proportionally in the homeless count when compared to the racial breakdown for the city as a whole. The city is taking many steps to address this issue. Recently Encinitas adopted the Homeless Action Plan in 2021. This multi-pronged plan included hiring a homelessness services manager to better observe and serve the homeless population in Encinitas. The Homeless Action Plan also wants to create direct channels to local organizations to better coordinate service. All of this is in accordance with Encinitas Housing Element program 2F.

<sup>7</sup> Diamond, Rebecca, Tim McQuade, and Franklin Qian. 2019. "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco." *American Economic Review*, 109 (9): 3365-94.

<sup>8</sup> "Displacement in San Mateo County, California: Consequences for Housing, Neighborhoods, Quality of Life, and Health", Miriam Zuk and Karen Chapple, Berkely Institute of Government Studies

<sup>9</sup> Chris Glynn, Thomas H. Byrne, and Dennis P. Culhane, "Inflection Points in Community-Level Homeless Rates," *The Annals of Applied Statistics* 15, no. 2 (January 2021), <https://doi.org/10.1214/20-aoas1414>.

<sup>10</sup> Gregg Colburn and Clayton Page Aldern, *Homelessness Is a Housing Problem: How Structural Factors Explain U.S. Patterns* (Oakland, CA: University of California Press, 2022).



Another spillover effect from high housing costs and high costs of living, is non-violent crime, because people are struggling financially. This may explain why Encinitas' level of non-violent crime, 45 crimes per square mile, is almost double the national median of 26 crimes per square mile.<sup>12</sup> A research paper done by UC Irvine's Livable Cities lab finds that crime was slightly lower in areas within a mile of an affordable housing unit. The paper looked at crime rates before and after a site was listed for affordable housing. After being listed as affordable, most violent, and nonviolent crimes slightly decreased. Only motor vehicle thefts slightly increased.<sup>13</sup>

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<sup>11</sup> <https://www.rtfhsd.org/wp-content/uploads/2022-Encinitas-City-Breakdown.pdf>

<sup>12</sup> "Displacement in San Mateo County, California: Consequences for Housing, Neighborhoods, Quality of Life, and Health", Miriam Zuk and Karen Chapple, Berkely Institute of Government Studies

<sup>13</sup> Mimi Ko Cruz, "Affordable Housing Decreases Crime, Increases Property Values," Affordable housing decreases crime, increases property values | School of Social Ecology, June 8, 2022, <https://socialecology.uci.edu/news/affordable-housing-decreases-crime-increases-property-values>.





## 4.2 Displacement Solutions, Building More Housing

Beacon Economics has identified the following tools as practical and actionable approaches to help close the gap between supply and demand. These tools can be grouped into four buckets: those that help increase housing supply, those that reduce construction costs, approaches to aid public support, and those with a regional focus.

### 1) Increase Housing Supply

#### a. Decrease Vacant Housing

The vacancy rate of housing in Encinitas has doubled from 4.3%, or 1,033 units, in 2000, to 8.6%, or 2,236 units, by 2020. This represents a meaningful portion of Encinitas housing. Beacon Economics does not have data to confirm that these houses are being used for vacation or investment purposes, but as mentioned earlier, the high proportion of houses bought completely with cash recently suggests this may be the case. There will always be some vacancy due to structural reasons such as turnover. But researchers estimate that a natural vacancy rate is around 5%, lower than Encinitas's rate.<sup>13</sup>

Vacancy Taxes, a special per-parcel tax levied on residential properties that are not in use for a certain number of days in a calendar year or are a second home, can be useful mechanisms for lowering the number of vacant houses in Encinitas. Vancouver, Oakland, Washington DC, Catalonia, and Paris have initiated vacancy taxes, and found that they do have the intended effect of reducing vacant dwellings in the short to medium term.<sup>14</sup> The overall effect on housing costs is minimal, however, because the number of houses impacted is relatively low.

Still, a Vacancy tax does seem like an appropriate tool for Encinitas given the increasing number of vacant houses and short-term vacation houses. If the City levied an additional 0.5% property tax on vacant houses, this could generate roughly \$2 or \$3M based on overall property tax revenues. (assuming an average property value of \$1.1M and 2,200 vacant properties). Furthermore, this tax revenue could be used to fund affordable housing. Therefore, the tax would not only encourage more vacant houses to rejoin the housing supply, but it could also increase the number of affordable units. However, implementation of a vacancy tax could be difficult, as it would have to comply with Proposition 13 and would require a two-thirds vote as specified under the California Constitution.

<sup>13</sup> Jordi Jofre-Monseny, Rodrigo Martinez-Mazza, and Mariona Segú, "EFFECTIVENESS AND SUPPLY EFFECTS OF HIGH-COVERAGE RENT CONTROL POLICIES" (Barcelona Institute of Economics, March 2023), <https://ieb.ub.edu/wp-content/uploads/2022/02/Doc2022-02.pdf>.

<sup>14</sup> Mariona Segú, "Taxing Vacant Dwellings: Can Fiscal Policy Reduce Vacancy?" (Munich Personal RePEc Archive, October 24, 2018), [https://mpra.ub.uni-muenchen.de/89686/1/MPRA\\_paper\\_89686.pdf](https://mpra.ub.uni-muenchen.de/89686/1/MPRA_paper_89686.pdf).



## b. Policies to Increase Residential Density

Additional Dwelling Units, ADUs and tiny homes are a relatively easy way to create more housing units. Encinitas seeks to expand and simplify ADU construction with programs 1C and 1D in the most recent Housing Element. Program 1C also promises to research how tiny homes can expand the development of ADUs. Research conducted in Portland, Oregon shows that 80% of legal ADUs were used as permanent housing.<sup>15</sup> ADUs are a good tool at increasing density while keeping neighborhood aesthetics. Encinitas has seen robust ADU construction in recent years, due in part to the Permit Ready ADU program. In the last 5 years (2018-2022), the City has permitted 524 ADUs, averaging over 100 ADU permits issued annually. Encinitas has permitted the third most ADUs of any jurisdiction in the SANDAG region, behind only San Diego County and the City of San Diego.

By-Right Duplexes were enabled by Senate Bill 9 two years ago, which allows homeowners to convert their homes into duplexes on a single-family lot or divide the parcel in half to build another duplex for a total of four units, effectively eliminating single-family zoning statewide. One study found that only 53 SB 9 projects had been approved in major cities in the first year of implementation.<sup>16</sup> Encinitas currently has 5 active SB 9 projects, and planning staff regularly fields questions from residents and developers on the City's SB 9 process, implemented through adopted Ordinance No. 2022-19. However, it is still too soon to project the long-term impact of SB 9 on the development environment.

The demolition of old housing and construction of new housing is a long gradual process, so neighborhoods are not changing overnight – rather they are changing over decades.

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<sup>15</sup> Jordan Palmeri, "Accessory Dwelling Units in Portland, Oregon" (State of Oregon Department of Environmental Quality, 2014),

<https://www.oregon.gov/deq/FilterDocs/ADU-surveyinterpret.pdf>

<sup>16</sup> Hanna Wiley, "A new California housing law has done little to encourage building, report says" Los Angeles Times. January 18, 2023. <https://www.latimes.com/california/story/2023-01-18/new-california-duplex-law-housing-sb9-homeowners>

<sup>17</sup> April Jackson et al., "Exploring Tiny Homes as an Affordable Housing Strategy to Ameliorate Homelessness: A Case Study of the Dwellings in Tallahassee, FL," International Journal of Environmental Research and Public Health 17, no. 2 (2020): p. 661, <https://doi.org/10.3390/ijerph17020661>



## 2) Reduce Construction Costs

By lowering construction costs, developers can not only produce more housing, but they can also afford to create more less expensive housing. The city has limited abilities to impact the cost of labor and materials, but it can play a large role in lowering the administrative burdens of building.

### a. Streamlining the Approval Process

Creating more efficient procedures for obtaining the necessary approvals would help lower construction costs. It would reduce entitlement costs, and importantly, lower land holdings cost that developers have to endure. Encinitas Housing Element programs 3B and 3D tackle streamlining by recommending regulation changes to minimize time and cost. Program 3G will ensure adequate monitoring so the city can adjust quickly to any complications in the development of housing. The City received a SANDAG Housing Acceleration Program (HAP) grant in October 2023 to hire new planning and engineering staff to help streamline and enhance housing production by reducing development review times and expediting the approval process. Encinitas has taken additional actions to remove constraints to development of ADUs, including implementing a 14-day processing time for ADU permit applications and revisions, creating an administrative Coastal Development Permit process to streamline ADU permit applications in the coastal zone, advertising the City's Permit Ready ADU program, and creating a permit processing flowchart to guide applicants through the ADU permitting process.

### b. Remove Barriers to Development, and Replace with a By-Right Approval Process

Implement a By-Right Approval process. This would establish a set of design guidelines for housing. It could be customized to different parts of the city. This is similar to the objective design standards ordinance in Housing Element Program 3B. If a development met those guidelines, it would be ministerially approved, and not require the lengthy permitting process. Removing Proposition A through a public vote and replacing it with this By-Right process would reduce the time and uncertainty to build vital housing. As housing is a crisis for the entire state, California has moved to force all cities to increase density. SB 9, SB 6, AB 2011 and others supersede Proposition A and will force the city to allow higher density construction. The SANDAG HAP grant referenced above also includes funding to amend the Encinitas Municipal Code and Local Coastal Program to comply with new housing legislation. Staff will be reviewing projects pursuant to new housing legislation, including those that require administrative and by-right approval processes. For example, AB 1490 will allow 100% affordable multifamily "adaptive reuse" projects to be permitted by-right. Adaptive reuse is the retrofitting and repurposing of a building that currently allows temporary occupancy to create new residential units.

### c. Encourage Efficient in Affordable Housing

Constructing housing that embraces green technologies, such as water efficient utilities, solar panels, and smart electricity management, will lower the operating costs of these units in the long run. This allows landlords to charge lower rent prices. Modular construction can also offer more cost-affordable building options. Encinitas Housing Element program 1F looks to address water and energy efficiency. More resources and expertise can be found in California's Energy Code. Title 24 is being updated to improve building efficiency standards to optimize new housing construction.



### 3) Engage with the community

Public support will be necessary to approve additional housing, and remove some of the largest barriers to development, primarily Proposition A. The Housing Element identifies this as well and addresses it with program 3F. Below are a few activities that may aid in these efforts.

#### a. Catalyze Employers

In addition to relying on the current community based YIMBY organizations, local employers can be strong advocates as well. High housing costs have a direct impact on their employees' financial wellbeing, making it more difficult to retain them and offer competitive salaries. Catalyzing employers has been useful in places like Orange County, where the Orange County Business Council was created, which developed the Workforce Housing Scorecard.<sup>18</sup> The scorecard reviews cities within Orange County in their ability to promote job growth and the necessary housing to accommodate those workers. This private entity helps monitor the housing crisis and provide guidance to what employers' think is necessary to have a healthy economy.

#### b. Construction-Related Income

Estimates from 2016 place the average output, or construction costs, of an average California housing unit at \$260,000.<sup>19</sup> This money ripples through the local economy, indirectly helping local businesses, such as when construction workers spend wages at local stores and restaurants. This ripple effect multiplies this spending by roughly 2.15, meaning about \$560,000 is added to the Encinitas economy for each additional housing unit. This is also known as the multiplier effect. If 2,000 housing units were built, for example, this could therefore inject \$1.2B into the local economy. Educating the public about these potential gains could be useful in advocating for more construction. This would be an innovative approach to campaigning for housing development. Sharing what is known in both economics and marketing can give Encinitas a powerful tool in motivating the city to build denser housing.

#### c. State Policies

Last, educating the public about the Sacramento's increasingly aggressive policies towards forcing housing construction could be beneficial. As readers of this report likely know, 124 cities or counties in Southern California failed to get their housing elements approved by October 15, 2021. This means these municipalities are at risk of losing control over their local development. For example, Santa Monica failed to get an approved Housing Element. It typically only approved about 160 units a year. Now, over 3,000 new units are moving ahead in a settlement agreed to by both parties.<sup>20</sup>

On May 9, 2023, the San Diego County Grand Jury issued the "Housing in San Diego County" report analyzing the lack of available land and money to construct adequate housing for current and future residents of the region. It stated that only 1 of 19 jurisdictions in the SANDAG region (Lemon Grove) met their RHNA requirement for the 5th Housing Element Cycle (2013-2021). Encinitas met its above moderate income RHNA goal in the 5th Cycle, but failed to construct enough affordable housing in the very low, low, and moderate income categories. Maintaining an approved housing element during the 6th Cycle (2021-2029) is crucial for every city in order to achieve regional housing goals.

<sup>18</sup> "Workforce Housing Scorecard," Orange County Business Council, January 16, 2023, <https://ocbc.org/research/workforce-housing-scorecard/>.

<sup>19</sup> Closing California's Housing Gap - McKinsey & Company, October 2016, <https://www.mckinsey.com/-/media/McKinsey/Industries/Public%20and%20Social%20Sector/Our%20Insights/Closing%20Californias%20housing%20gap/Closing-Californias-housing-gap-Full-report.pdf>

<sup>20</sup> "Builder's Remedy Projects Could Bring Nearly 4,000 Homes to Santa Monica," Urbanize LA, October 14, 2022, <https://la.urbanize.city/post/builders-remedy-projects-could-bring-nearly-4000-homes-santa-monica>.



#### 4) Housing is a Regional Problem

Last it is important to note that ultimately Housing is a regional problem. Encinitas cannot drastically move the needle on housing costs by itself. Therefore, the City should partner with neighboring municipalities in the region to work on the issue together. Encinitas has already partnered with The San Diego Association of Governments (SANDAG) to take advantage of the Housing Acceleration Program (HAP).<sup>21</sup> San Diego County has created the Innovative Housing Trust Fund (IHTF) to finance developers to maintain current affordable housing stock.

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<sup>21</sup> "Housing Acceleration Program," SANDAG, <https://www.sandag.org/projects-and-programs/regional-initiatives/housing-and-land-use/housing-acceleration-program>.

<sup>22</sup> Diamond, Rebecca, Tim McQuade, and Franklin Qian. 2019. "The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco." *American Economic Review*, 109 (9): 3365-94. DOI: 10.1257/aer.20181289



## 4.2.1 Affordable Housing Grants

Any new housing will help mitigate displacement risk. It does not necessarily have to be affordable housing. Affordable housing will be more directly beneficial to displacement than high-end luxury housing, however, it all helps to lower housing costs. Even if new units are too expensive for low-income families, they still increase market affordability through “filtering” – the process in which housing units depreciate overtime as newer units are built, and what was once designed for high-income households ages down to lower-income households. Research shows that building more housing designed for any income level is beneficial to lowering housing costs throughout the local market.<sup>23</sup>

Admittedly, while filtering is good for the long-term health of a housing market, it does not significantly move the needle for affordable housing in the short term. Building low-end housing is the most effective way to reduce displacement risk in the near future. Building affordable housing is expensive for the city because it is below market rates.

Thus, Beacon Economics has identified a number of potential grant funding opportunities for Encinitas. Encinitas may not qualify for all of these grants currently, but they are listed to provide information on what is available. These funds could be utilized if the City were to partner with an affordable housing developer on an affordable housing project in the City. Direct funding mechanisms the City could seek include issuance of a housing bond or establishment of a commercial linkage fee to fund affordable housing development.

- 100% Affordable Housing Site
  - Encinitas is developing a 100% affordable housing development at 634 Quail Gardens Drive known as the L-7 site. The City could partner with a nonprofit developer that utilizes the affordable housing grants detailed in this section to construct a multifamily rental project on this site where all units are affordable to lower income families.
- Affordable Housing In-Lieu Fee
  - In 2021, the Encinitas City Council approved an increase of the affordable housing in-lieu fee to \$20 per square foot for residential development projects that eschew the City's inclusionary zoning requirement of 15% very low-income units or 20% low-income units. Additional revenue from the increased in-lieu fee contributes to City resources that can be used to develop affordable housing, such as on the L-7 site referenced above.
- Tenant-based rental assistance programs (Section 8 Housing Choice Vouchers)
  - Voucher holding families receive a subsidy that they can use at any privately owned rental unit that meets program guidelines and has an owner willing to participate in the program. Encinitas does already have a Section 8 housing voucher program. It is worth noting that accepting Section 8 as payment is an increased burden on landlords. It is only recently that Section 8 can no longer be refused as rent payment. Providing guides and help for landlords to process Section 8 would be a valuable step in helping this transition.

<sup>23</sup> Rosenthal, Stuart S. 2014. “Are Private Markets and Filtering a Viable Source of Low-Income Housing? Estimates from a “Repeat Income” Model.” *American Economic Review*, 104 (2): 687-706.



- o The City is tasked with fully utilizing its Section 8 Housing Choice Voucher (HCV) program under Housing Element Implementation Program 2C. The City received over \$315,000 on September 1, 2023 for funding to serve additional households on the HCV waitlist through the \$200 Million HAP Set-Aside for Category 5 (Lower-than-average Leasing). These new vouchers will be added to the existing 136 vouchers issued by the Encinitas Housing Authority.

- HOME Investment Partnerships Program

- o HOME funds can be used for a variety of housing-related activities, including home purchase and rehabilitation assistance, site acquisition or improvement for the development of affordable rental or owner-occupied housing, and tenant-based rental assistance. Encinitas does currently work with the HOME program and can further promote this resource to developers.

- Community Development Block Grants

- o The United States Department of Housing and Urban Development has already awarded Encinitas a Community Development Block Grant (CDBG). CDBG funds can be used for a variety of eligible activities related to housing and community development. Encinitas should focus this funding to invest in site acquisition or to partner with private developers to expand affordable housing. If possible, the City should secure additional CDBG funding in order to broaden the population of residents it is able to assist.

- Capital Magnet Fund

- o The Capital Magnet Fund is a competitive grant program administered by the Treasury Department. Community Development Financial Institutions (CDFIs) and qualified nonprofit housing organizations are eligible to compete for program funds, which may be used to finance housing for low- and moderate-income households. Possible CDFIs that Encinitas could reach out to are ACCION San Diego, Bankers' Small Business CDC of San Diego, and Community Housing Works Realty & Lending.



## 4.3 Housing Policy Environment

Of course, there are a number of policies that obstruct the creation of new housing. Proposition A, "Encinitas Right to Vote Amendment", is arguably the most significant. It went into effect in 2013 and requires voter approval for any major changes to planning policy, such as the Land Use Element, Land Use Policy Maps of the General Plan, Zoning Codes, Zoning Map, etc. Proposition A has blocked rezoning of land for housing until 2019 and therefore played a significant role in increasing housing costs.

Changes in broader housing policy at the state level make it difficult for any city to deny a housing project that complies with all objective development standards. Additionally, the density bonus law allows developers substantial increases in density over those in the City's general plan and zoning ordinances.

Sacramento is continuing to pass new laws that will only increase the number of tools it can use to force new housing. These new laws are designed to help streamline housing approval and increase density. Several significant bills went into effect in 2022, and more will go into effect in 2023.

The State's regulations are impacting all municipalities in the area. This is important because Encinitas will benefit if Carlsbad, Solana Beach, and the rest of San Diego County build more housing. If Encinitas is the only City to build housing, it will have a limited impact on prices, because it is part of a wider regional market.



## 4.3.1 Major Bills in 2022

Below is a review of significant housing actions that came out of Sacramento in 2022.

Bills enacted in 2022 that affect density include:

- **SB 9** – by-right duplexes
- **SB 10** – up zoning to 10 units
- **SB 290** – reforms the State Density Bonus Law
- **SB 728** – Purchase of Density Bonus Units by Nonprofit Housing Organizations
- **SB 478** – Minimum FAR/Lot Coverage Standards and Prohibition on CC&R Restrictions of FAR for Missing Middle Multifamily Housing
- **AB 345** – ADU Separate Conveyances

Bills in 2022 that streamline housing approval include:

- **SB 8** – Extending Provisions in the Housing Crisis Act
- **AB 1174** – Reforms to SB 35's Streamlined Ministerial Approval Process for Post-Approval Modifications and Permits
- **AB 1398** – Accelerating By-Right Rezoning Requirement for Noncompliant Housing Elements

Major bills in 2022 that affect Covenants, Conditions and Restrictions:

- **AB 721** – Covenants That Limit Residential Development Rendered Unenforceable Against Affordable Housing Developments
- **AB 1584** – Covenants that Limit an ADU on Single-Family Lot Rendered Unenforceable
- **AB 1466** – Removal of Unenforceable Discriminatory Covenants from Recorded Documents

Major bills in 2022 that affect cities' Housing Elements:

- **AB 215** – Housing Element Revision Publication Requirements and Housing Law Violation Enforcement
- **AB 68** – California Statewide Housing Plan Reporting Requirements
- **AB 787** – Moderate-Income Conversions Counted Towards RHNA
- **AB 1029** – Grants for Pro-Housing Local Policies

Last, here are a couple of bills that affect the cost of housing production:

- **AB 602** – Impact Fee Nexus Study Standards and Procedures
- **AB 571** – Prohibition of Affordable Housing Fees on Affordable Housing Units



## 4.3.2 Major Bills That Go Into Effect in 2023

Perhaps the most significant bill to go into effect in 2023 will be AB 2011, which creates an approval pathway for qualifying multifamily projects on commercially zoned land. Other important bills include:

Major bills in 2023 that affect density include:

- **AB 2334** - Reforms to the State Density Bonus Law to define "base density" and provide further concessions for 100 percent below market rate projects in low vehicle miles traveled areas
- **AB 1551** - Density Bonus Law benefits for mixed-use projects
- **AB 682** - Density Bonus Law benefits for shared/co-living housing

Major bills in 2023 that streamline housing approval include:

- **AB 2011** - CEQA-exempt ministerial approval pathway on commercially zoned land for qualifying residential development that meets affordable housing targets and pays prevailing wages
- **SB 6** - allowing residential use on commercially zoned property without requiring a rezoning for projects that pay prevailing wages and meet "skilled and trained workforce" requirements
- **AB 2234** - enforceable timelines for local governments to issue post-entitlement ministerial building permits
- **AB 2295** - allowing educational employee housing on land owned by school districts or county office of education
- **SB 886** - CEQA exemption for qualifying university housing development projects
- **AB 2668** - "cleanup" of SB 35's streamlined ministerial approval process

Major bills in 2023 that affect Accessory Dwelling Units:

- **AB 2221** - comprehensive "cleanup" of ADU laws
- **SB 897** - increased height limits for ADUs; allowing detached ADUs on lots with proposed multifamily dwellings
- **AB 916** - maximizing bedroom counts within existing units

Last, bills that impact Planning and Lower-Income Housing Opportunities:

- **SCA 2** - propose for 2024 ballot the repeal of state constitutional article requiring voter approval of certain "low rent housing projects"
- **AB 2094** and **AB 2653** - greater requirements for annual reports on housing progress
- **AB 2339** - planning for emergency shelters and clarifying Housing Element Law
- **AB 2873** - Promoting diversity in affordable housing development





## 4.4 Forward Looking

More than half of Encinitas residents are rent burdened. Robust demand, inadequate supply, and rising prices are putting financial pressure on many households in the city. There are practical ways that the city can increase housing supply and drive down costs over time. The challenge is to overcome regulatory barriers to unlock supply and actually build these much-needed homes.

Residents understandably enjoy the small town feel and low-density character of Encinitas. However, increasing housing costs are raising the cost of all aspects of life in Encinitas. Coupled with the increasing pressure from Sacramento to boost housing supply, Encinitas faces a tough decision on whether to build more homes and alleviate these pressures, or not.





# About Beacon Economics

Founded in 2007, Beacon Economics, an LLC and certified Small Business Enterprise with the state of California, is an independent research and consulting firm dedicated to delivering accurate, insightful, and objectively based economic analysis. Employing unique proprietary models, vast databases, and sophisticated data processing, the company's specialized practice areas include sustainable growth and development, real estate market analysis, economic forecasting, industry analysis, economic policy analysis, and economic impact studies. Beacon Economics equips its clients with the data and analysis required to understand the significance of on-the-ground realities and to make informed business and policy decisions.

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