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# PRIVATE-SECTOR STRATEGIES FOR SOLVING THE BAY AREA'S HOUSING PROBLEM\*

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## Introduction

The Bay Area is in desperate need of additional housing. At the present time, housing production in the Bay Area is only meeting about forty percent of current demand. Each year it becomes more difficult to build affordable housing, as more communities curtail opportunities for housing production, and financial markets drive the cost of homeownership beyond the reach of aspiring households.

The Council's *Housing: The Bay Area's Challenge of the '80s* documented four causes of the problem:

- Local development policy;
- Waste of land and urban services;
- Community resistance and the regulatory process;
- Local fiscal problems.

Solving the Bay Area's housing problem will be difficult and time consuming. It is clear that no one "quick fix" can be applied to solve the region's problem. A set of strategies must target on the four causes of the problem.

Developing well aimed solutions requires a different style of corporate involvement in local planning and development decision-making. Strategies to change local development policies, increase the density and efficiency of land development, offset neighborhood resistance to residential development, and increase local fiscal capabilities to support new residential development require the active participation of the

private sector.

The purpose of this paper is to outline a range of possible solution strategies as well as their assets and liabilities so that members of the Housing Task Force can choose a recommended course of action for the council to pursue. The solutions were culled from a larger list prepared last spring. The list was then presented to five roundtables of experts held between November 11 and December 2. A total of fifty-five people, experts in residential development, housing finance, land-use regulation, corporate planning, design, housing policy, and citizen participation critically reviewed and discussed the solution strategies.

The roundtable sessions were very useful in helping to winnow the list of strategies to twenty-three specific proposed actions. They are organized into five categories:

- 1) Education and technical assistance;
- 2) Advocacy efforts;
- 3) Financial incentives;
- 4) Legislative action in Sacramento; and
- 5) Direct corporate involvement in housing production.

It is not reasonable to assume that the Bay Area Council could or should act to implement all twenty-three strategies. Such an effort would be extremely expensive and dilute the Council's housing program. The most effective approach is to pick and aggressively implement several of the most promising strategies.

The choice of the best strategies should be based on several criteria:

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\*This paper was originally prepared as a report for the Bay Area Council.

- Public acceptability;
- Local government acceptability;
- Developer acceptability
- Business acceptability;
- Cost-effectiveness;
- Ease of implementation; and
- Time required to achieve results.

Each strategy is evaluated according to these criteria. The paper is organized around the five types of strategies. At the end of each strategy section, a summary table evaluating each strategy is presented.

The range of involvement chosen by the Bay Area Council itself might vary from the sponsoring of a limited educational program to such efforts as launching a housing institute to promote the construction of affordable housing in the Bay Area communities, drafting and promoting housing legislation in Sacramento, and acting as a broker to channel corporate financial support into housing construction programs. The strategies outlined are not necessarily suggested as actions to be carried out by the Council, as an institution. Rather, any of the options outlined may be most effectively carried out by individual Council members, or by other organizations (*e.g.*, CAL TAX, League of Cities, COLAB, CCEEB).

## **I. EDUCATIONAL AND TECHNICAL ASSISTANCE**

A not insignificant portion of the Bay Area's housing production bottleneck is the result of inefficient and conflicting government policies, unanticipated rapid economic development, beliefs that more housing is fiscally and environmentally harmful and a limited understanding of the causes and consequences of the housing problem. An educational and technical assistance program might sensitize local governments, citizen groups and corporations to the extent of the problem and provide insights as to how more housing at affordable prices can be produced. Educational and Technical Assistance A. A Primer For Corporate Action

To date little corporate attention has been directed towards solving the Bay Area's housing problem, aside from the efforts of

the Santa Clara County Manufacturing Group. Most corporations do not see themselves as major actors in the land-use and community-development arena. Many executives are concentrating on more pressing business problems, and feel that local planning issues are best left in the hands of elected officials and government staff. In the past such attitudes may have been correct, as local governments planned for growth, generally supporting and implementing development that was largely congruent with corporate objectives. But with the growth of more vocal environmental and neighborhood interest groups, the business community can no longer expect elected officials to espouse the business viewpoint in the face of strident opposition to growth.

The passage of Propositions 13 and 4, together with the increased clout of preservationist neighborhood groups and complex environmental regulations, have forced local governments to pursue a new path, one that often strays from accommodating corporate needs and maintaining the economic vitality of the region. Community planners are now forced to accede to many other pressures besides business and economic needs. It is no longer accurate or desirable to assume that business needs are being met. The pressures of special interest politics are upon us; therefore, corporations must play a more active role in local affairs. Unfortunately, many corporations do not know what to do, or how to do it. There is also a traditional skepticism towards intervening in public issues not directly related to corporate business functions. The hesitancy to engage in active corporate participation in community development, as well as the lack of clearly defined role models for appropriate corporate-community involvement stands as an impediment to corporate action.

A Bay Area Council developed primer or handbook on corporate responses to community planning problems could provide the basics for helping corporations understand the dimensions of the problem, why their involvement can make a difference, and how they can develop concrete programs for participating in local community development issues. The primer might begin by explaining why the corporate perspective is not now well represented in most community

development decisions. It would show how groups such as the Committee for Economic Development and the Santa Clara County Manufacturing Group have helped make communities more aware of housing needs. The primer could discuss how corporations, operating collectively or individually, (depending on corporate desires and local housing market conditions) might provide input on business's expansion needs into local planning.

In addition to general guidance on policy questions, the primer would include an array of specific programs that corporations could undertake to encourage greater local housing choices. For example, in addition to explaining why it is important for corporations to become involved in local housing issues, the primer could include chapters on developing a "presence" at local planning commission and city council meetings; how to bring together employees that want or need housing in the community; how corporations can work with developers to hold down housing construction costs (*e.g.*, joint ventures, land banking and write-downs, financing schemes to lower developer holding costs); how to coordinate efforts with other corporations that have a stake in the local housing market; and how corporations can assist employees to buy housing.

Such a program has several positive points. First, it is an important first-step in corporate education. By starting at the individual corporation level, the primer educates executives about the nature of the problem and what can be done about it. Second, it allows corporations to tailor their actions to match their unique style and local conditions. Third, the primer might serve as a basis for organizing corporations into subregional groups to better coordinate promotion of the production of affordable housing. The primer would probably be well received by the business community. If it is widely distributed it might have much effect on corporate-community involvement around the Bay Area. The primer would probably require about \$25,000 and one year to develop. It has the potential of being extremely cost-effective.

On the liability side, the primer could well be attacked for being just another "report," and for not proposing a concrete

set of actions for the Council to implement. Once the primer is distributed, it may take considerable time for corporate policy and actions to respond. It also may not help the Bay Area Council, as an institution, crystallize collective corporate action to break the housing production bottleneck.

#### *B. Land Survey*

Lack of knowledge about the dimensions of the Bay Area's problem is as widespread in the public sector as it is in the private sector. An up-to-date and thorough inventory of developable residentially-zoned land does not now exist. Such an inventory could identify jobs-housing imbalances around the region (using the ABAG-BAC Economic Profile's fifteen employment centers), and help focus efforts to get communities in these "imbalanced" areas to plan for more housing.

Recent State legislation, AB 2853, requires that both local governments and regional Councils of Government inventory available but unused residential land. By focusing attention on the need for a survey both generally, and in the context of AB 2853, the Bay Area Council can help to insure that AB 2853 is fully implemented. In the event that funds are not made available to conduct the necessary survey, a private-sector-supported survey of developable residential land could play a powerful role in encouraging local governments to meet their "fair share" of housing demand.

A survey of available land, such as the one proposed here, would inform elected officials, city planners, developers, and corporate planners about land and housing availability, as well as overall local growth potential. The data, would also be very useful for assisting communities to develop updated housing elements as required by AB 2853. Creating this type of objective region-wide inventory may be best suited for ABAG. The Bay Area Council might want to assist ABAG in securing local, State and Federal funds to conduct such a survey. On the other hand, a privately funded survey, which might be coordinated with the efforts of the "Builders for Affordable Housing," would provide greater control, and allow for the more direct use of the survey results in educational and advocacy programs outlined below.

The survey has several positive points. First, it can serve as a useful device for alerting decision-makers to the jobs-housing imbalance that now exists in many portions of the region. Second, if used to revise local housing elements, the survey can help to implement AB 2853. Third, the survey could be used to identify communities which are artificially restricting housing development, can help to focus lobbying and advocacy efforts in key areas, and be used to support litigation likely to grow out of AB 2853.

On the negative side, the survey will be expensive, costing well in excess of \$100,000. Without follow-up action by the Council or others, there is no reason to believe that "better" information will incline communities to provide more housing opportunities. The survey is also just another study; unless the results are directly used to develop some action program, it is not likely to generate much in the way of new construction. Another criticism is more fundamental; many developers argue that such surveys are extremely limited since they fail to determine whether the present owner is willing to sell his land. Unless the availability of land is also determined, inventories provide a biased estimate of development potential. Also, if it finds that land is in short supply the survey may aggravate land prices by encouraging speculation. Another problem is that the surveys become out-of-date quickly and are too "macro." Many round-table participants felt if conducted, that the surveys should be done at a smaller scale, *e.g.*, city or county. The scale of survey will greatly influence the cost. If the survey was done to help ABAG determine regional fair share allocations of new housing (as required in AB 2853), the inventory would need to be done regionally. On the other hand if the Bay Area Council conducted its own surveys in selected areas (say imbalanced job-housing areas) the level of detail of the survey could be much greater, and not nearly as expensive.

### *C. Audit of Permit Approval Process*

Over the years the approval of residential projects has become extremely complicated and lengthy. In many communities, it can take months to obtain a permit. To

determine the length of time required to obtain a permit and the number of steps required for each Bay Area community, an audit of local permit procedures is proposed.

The audit would identify the residential development approval procedures used by cities. Each audit would also measure the time required to obtain development permission. This information can be used to identify cities with complex and lengthy review procedures, and help focus reform efforts on them. Overall, the audits could provide several positive results. The audits would identify slow moving programs, and communities with efficient review programs. This information could also be used to "jawbone" inefficient cities to improve their systems. Knowledge of efficient programs can also be used to help develop more efficient procedures for slower moving cities.

This audit task may also be well suited for ABAG. ABAG has had much experience conducting region-wide surveys and providing technical assistance to local governments. However, there are real risks associated with using ABAG. With ABAG doing the audit survey, the results would probably be presented in as noncontroversial of a way as possible. If the survey of development times is to be used to identify cities with byzantine procedures and slow approvals, ABAG could put itself in an awkward position. The results need to be presented frankly, and used to pressure slow-moving governments to overhaul their approval process. Because of its financial links to local governments, ABAG may not be in a position to do this.

Another way of doing the audit would be to use management consultants on a *pro bono* or fee basis. The consultants could conduct an accurate audit of approval procedures in the region and provide technical assistance to local governments wanting to improve the efficiency of their review procedures. Still, even if consultants are used to avoid the problems of conflict of interest, there is little certainty that any community will reform its procedures. Again, as in the previous strategic example, unless some direct lobbying and advocacy effort is made or some concrete positive or negative incentive is provided, local government is not likely to quickly make changes that will speed up the approval process.

#### D. Developer Institute

Complex land-use and environmental regulations have greatly frustrated the efforts of small builders and developers. Increased reviews, more comprehensive and exacting requirements, and well-organized and determined neighborhood groups are making it very difficult for small builders and developers to operate as they have in the past. As the smaller operators are forced out of the marketplace or leave the Bay Area, the new housing market becomes limited to a few large builder-developers. To check this trend an institute to help small builders cope with the complexities of residential development in the Bay Area is proposed.

The institute would provide technical assistance to help developers prepare project applications and how to minimize citizen opposition to development. The institute would offer training courses in how to shepherd projects through complex regulatory environments. Funds for operating the center would come from the industry, or related groups. The institute, in addition to helping to increase builder-developer sophistication, could serve as a clearinghouse of information on effective development practices. Such an institute is probably best run by the construction industry.

Opinions among roundtable participants about the desirability and effectiveness of the developer institute was mixed. Several representatives of large residential builders indicated that the institute would not be well received. Most developers prefer to go-it-alone, and shun assistance. Other members of the roundtables felt that training and technical assistance programs would be useful to small builder-developers. Some participants suggested that the scope of the institute be broadened to include local government planners as well. The institute could be used to create a dialogue between planners and builders. The institute could be fairly expensive to operate. If only small developers participate in it, the potential cost-effectiveness of this program is questionable.

#### E. Create a Forum to Bring Corporate and Government Officials Together

At present, little communication goes on between corporate executives and local elected officials and staff planners. By creating or promoting such forums, the Bay Area Council could take the lead in establishing better relationships within communities, help disseminate information between the public and private sectors, provide the opportunity to exchange viewpoints about growth and development, and provide *pro bono* assistance to communities.

The forum could also be an excellent educational tool to inform elected officials and staff about corporate needs. The lack of communication and coordination between the private and public sectors is a factor that has contributed to the current housing shortage in the region--particularly in Santa Clara County. The recently created Santa Clara County Manufacturing Group, as well as several County created task forces, has had an impact on local decision-making in the County.

Once the forums are established, they can go on to provide technical assistance to communities. In a sense the forum is a means of creating a corporate group that seeks to inform elected officials and staff about corporate needs and expectations. Roundtable participants were unanimous about the value of sharing long-range growth projections, and about the creation of a vehicle to provide an "early-warning system" about cumulative private-sector growth plans.

These forums have some drawbacks. First, they may antagonize some public officials, and also dilute the power of existing business groups like local Chambers of Commerce. Some areas, like Santa Clara County may be saturated with forums and task forces. Second, like many of the other programs, there is some doubt that educational efforts will significantly affect local public policy. Unless the recommendations of such programs are carried forward and put into action, little concrete benefit should be expected. Finally, it may require so much time to establish these forums around the Bay Area, that there must be a sustained



long term commitment to justify creating them.

#### **F. Identify Alternative Mechanisms to Underwrite Infrastructure Costs**

During the past five years, particularly since Proposition 13, communities have gradually shifted the cost of providing public services to new subdivisions onto the developer. While such changes guarantee that each new development pays its own way, they have added considerably to new housing costs. There is also increasing evidence that developers, in exchange for certain approvals, must pick up the costs of other community-wide services and facilities. These added requirements push-up the developers overall project and financing costs, and make it more difficult for small builders to operate.

New methods of financing community infrastructure are needed. There are several creative approaches that show much promise for reducing infrastructure-costs, such as no special tax assessment districts to support revenue bonds (*e.g.*, Visalia), increased reliance on property owner groups and tenants associations to provide services, and better coordination of development to spread fixed infrastructure costs over a larger user base. Together, the Bay Area Council and ABAG, might prepare a report explaining such possibilities and conduct a technical assistance program to inform local governments about how to more creatively finance infrastructure.

Such a technical assistance program would probably require about \$25,000 to develop. If communities adopted some of the recommended methods, the program might yield cost-effective results. On the other hand, communities may not be willing to try to reduce the financial costs of infrastructure if they perceive other negative consequences of increased housing development. If this is the case, then the technical assistance program would not be very effective. Another potential problem is that public officials and citizens may see the proposed methods as an end-run on Proposition 13.

#### **G. Educational Program to Promote Higher-Density Development**

The density of new residential development in the Bay Area continues to fall. Attitudes about high density development are negative, and are reflected in both the marketplace and at public hearings. The recent Bay Area Council public opinion poll found adverse sentiments about additional residential development generally, and high density development in particular. Thirty-three percent of the respondents agreed with the statement that "new residential development in my community would threaten the quality of life of current residents." Fifty-four percent of the respondents agree that "higher-density housing means lower quality of life."

The negative response to higher-density environments is based on many factors, but one reason people oppose higher density is a limited knowledge of the benefits and little insight as to attractive examples of high density development. Higher-density development can have much to recommend it. Higher energy costs, increased awareness of the need to preserve farmland, smaller household size, and changing lifestyles all encourage more intensive land use and the blending of residential, commercial, and recreational uses. While these arguments are relatively well understood by professionals, the public in general has not been informed as to the personal benefits of higher-density development.

A well financed and designed educational program on the virtues of higher-density living as a timely, realistic alternative lifestyle choice in the 1980s could be an effective long term strategy for gaining citizen support for increased density. The program could identify good examples of desirable higher-density development, showcase attractive projects for planning commissioners and staff, have an annual award for the best high density project in the region, and develop an outreach program to spread the message to environmental, neighborhood and homeowners associations. The Urban Land Institute has begun work in this area, and could serve as a good resource.

Such a program must have a long-term commitment from the Council, or its sponsor. The educational program must, to be

successful, significantly alter the traditional views that households have about housing. The American dream of a single family house surrounded by a quarter-acre of lush green grass has evolved into a very expensive piece of real estate. While the market will eventually force people to reconsider and change what they feel to be their dream house, it will not stop those that already own single family housing from demanding that only more of the same be built in their community.

The most strident opposition to denser multifamily housing comes from homeowner groups. These groups must be sold on the real benefits of multifamily housing and also convinced that higher-density development is not synonymous with a changing community population or shoddy construction. Bringing about such change will be difficult; most likely it can only occur over time; probably beginning with elementary school children and moving upward. While the payoffs may only be noticeable slowly over time, in the long run this educational program can do the most to fundamentally change attitudes about the kinds of housing needed in the Bay Area.

#### **H. Mount a Public Relations Campaign**

While the Bay Area Council recently "went public" with its statement of the extent of the regional housing problem, it has not informed the public about what can be done to solve the problem. A logical next step to the problem statement report would be to prepare a paper explaining how citizens can have greater housing choices. The Campaign would need to go beyond preparing a report. A presentation could be developed and made to local civic groups around the region. To be effective the campaign must target local interest groups that most influence planning decisions.

The Building Industry Association presently has a public relations campaign underway. This program includes a survey of citizens and elected officials. The success of the campaign is limited by the obvious self-interest of its promoters. If the Bay Area Council or some other more general interest group were to launch a similar campaign, more interest might be attracted from the media, public officials, and citizens.

This strategy like the previous one, is long term and requires moderate financial support (\$30,000 per year). A short campaign will be nothing more than a "flash in the pan" and not be likely to shift citizen opinion. The campaign must be on going to yield significant results. The institutional affiliation of the campaign is crucial if the program is to work; careful consideration must be given to who mounts the campaign. This campaign could easily integrate the high density program outlined above. In fact, as will become clear the educational efforts can be blended with some of the advocacy strategies outlined in the next section.

The eight educational programs cover a wide variety of possible actions. To help the housing task force choose specific programs, Table 1 presents a summary evaluation of the eight programs.

## **II. ADVOCACY EFFORTS**

The educational programs outlined above are aimed at informing corporate executives, elected officials, staff, and citizen groups about the Bay Area's housing problem and how it can be solved. The educational programs will have little impact on local government policies on residential development, unless they are complemented with an active advocacy program.

### **A. Create a Regional Housing Alliance**

By creating a group to advocate increased housing production, the Bay Area Council could take a big step towards offsetting the anti-growth pressures of local interest groups. A few groups operate mainly at the local level, but there is no region-wide group that actively supports the production of housing. At public hearings developers or builders are the only housing production advocates. The interests of future homeowners, or workers who can not afford to live near where they work, or businesses that can find workers are rarely represented at local planning or city council hearings.

A Regional Housing Alliance (RHA) to aggressively promote housing production in various communities, could be very effective. It could operate on several levels: as a clearinghouse on increasing housing pro-

TABLE 1

## Summary Evaluation of Educational and Technical Assistance Strategies

Strategy	Public Acceptability	Local Government Acceptability	Developer Acceptability	Business Community Acceptability	Cost To Implement	Likely Effectiveness	Ease of Implementation	Time Required To Achieve Results
A. Primer for Corporate Action	N.A.	N.A.	N.A.	High	\$25,000	Moderate	Easy	Medium-term
B. Land Survey	N.A.	Moderate	Moderate	Moderate	\$100,000	Low-Moderate (depends on follow-on action)	Moderate	Medium- to Long-term
C. Audit of Permit Approval Process	Low-Moderate	Low-Moderate	Moderate-High	N.A.	\$50,000 (depends on who does it)	Low-Moderate	Moderate	Medium-term
D. Developer Institute	N.A.	Moderate	Low-Moderate (depends on size of developer)	N.A.	\$75,000/Year	Low-Moderate	Easy	Short-term
E. Create Forum to Bring Corporations and Government Together	Moderate-High	Moderate-High	Moderate-High	Moderate-High	\$50,000 (depends on number of community forums)	Moderate	Difficult	Long-term
F. Identify Alternative Mechanisms to Underwrite Infrastructure Costs	Low-Moderate	Low-Moderate	High	High	\$25,000	Moderate-High	Moderate	Short-term
G. Educational Program to Promote Higher Density	Moderate	Moderate-High	Moderate-High	Moderate-High	\$50,000/Year	Moderate-High	Moderate	Long-term
H. Mount a Public Relations Campaign (varies between owners and renters)	Moderate	Moderate	High	High	\$30,000	Moderate	Moderate	Long-term

duction distributing model ordinances, information on how to promote compact development, literature on the advantages of higher-density development, and so forth; as a provider of technical assistance to communities wanting to reduce development permit processing time, to rezone excess industrial land that can be used for needed housing, and to allow for mixed-use development. The RHA could also make presentations to elected officials, planning commissioners, planning staff and neighborhood groups explaining why more housing is needed, the benefits of higher-density development, how to provide density without disrupting the local environment, and the services the RHA can provide to assist communities wanting to produce more units.

On a more active level, the RHA could serve as an aggressive advocate for increased housing production, attending local planning commission hearings seeking approval of higher-density projects. It could act as a housing proponent at hearings and strive to offset local opposition to development. Urging communities to fully implement AB 2853, and take other steps, such as rezoning industrial land to residential use, and allowing the construction of residential units in commercial areas, to meet the region's housing needs. If all else fails, the RHA could take legal action against cities that fail to comply with state housing and planning laws.

The RHA has many potential positive attributes, particularly its ability to crystalize *diffuse housing* interests not now represented in communities and press for housing production. However, the strategy does have potential problems. First, is the potential problem that it might be perceived as an outsider, carpetbagging to get "other" communities to build more housing. On the other hand, the RHA could play a major role in creating a dialogue between neighborhood and environmental groups, and those providing and needing housing. The carpetbagger problem can be overcome if the RHA can create local constituencies. The roundtable participants were unanimous in their opinion that the advocacy efforts must be organized locally, not regionwide. If, in various communities those households needing housing were organized, they could provide a strong

and compelling voice for more residential construction. A basic issue that needs to be resolved is whether the local "chapters" of the RHA operate solely as advocate groups or take more moderate stances. The best course is to tailor each local campaign according to local conditions. If the RHA is created, it should initially only attempt to function in a few selected communities until it has developed a well articulated style of operation.

Another potential problem is how the RHA will be funded, and who will sit on its board of directors. The level of support needed to launch the alliance in substantial, (\$100,000 per year) and long-term. If the RHA is funded by the construction industry, its credibility will not be great. The RHA needs to be independent; not connected to businesses or institutions likely to profit from increased housing production.

#### **B. Promote Mixed Use Development**

Another facet of an advocacy program would be to get communities to allow housing construction on commercial and industrially-zoned land. This might be advocated through the institute vehicle outlined above, or as a separate effort. The benefits and potential of mixed-use development needs to be explained to local planners, realtors, citizen groups, builders, bankers, and private commercial and industrial users. Planners have historically tried to keep land uses separate. Many designers, builders, and lenders are skeptical about mixing housing with commercial uses. Much of the resistance to mixed-use development stems from neighborhood opposition, problems of security, conflicts over circulation between different types of users, and uncertainty about financial feasibility.

Mixed use does have the potential to provide additional housing opportunities. However, it needs more promotion before it is likely to receive serious attention. In the past two years much attention has focused on the need to conserve energy, and how mixed use and more compact, dense developments can do so. As mentioned above, the Urban Land Institute has begun to define the development choices for the 1980s, given energy and resource constraints, and shifting demographic patterns.

A well designed and sustained promotional campaign showing the benefits of attractively designed mixed-use development would be timely and could have positive impacts on attitudes. It will require a sustained effort, since several years promotion will be required before professional attitudes are changed.

### **C. Advocate Early Neighborhood Involvement in Project Review**

Some planners and developers believe that fewer projects would be "torpedoed," if neighborhood groups were involved in the review process much earlier. *Ad hoc* forums to bring developers and neighborhood groups together to negotiate development conflicts could be created. The early bringing together of opposing groups can help to create a setting for resolving conflicts that stop residential projects. If some independent third party group were able to bring opposing groups together, negotiated resolutions might be achieved. There are many models for conflict resolution, spanning from labor-management arbitration, to broader applications by the American Arbitration Association, to more local experiments such as the Forum on Community and the Environment in Palo Alto. While the ways of institutionalizing a method for conflict resolution or negotiated settlement are many, one fundamental rule is that the entity trying to resolve the conflict should have no stake in its outcome. Therefore, it is not feasible to have the RHA or some other pro-housing group attempt to act as a conflict-resolver. Also it is probably best to not have the Bay Area Council directly involved in the operation of a negotiated development program.

Besides the need for independence, a forum for conflict resolution, may raise another problem. By crystalizing neighborhood groups, the process could backfire and make the development process more conflict laden by organizing the opposition better. Any attempt to cultivate early involvement in the development process should be carefully planned.

### **D. Encourage Corporate Advocacy**

So far, suggested advocacy efforts have been aimed at public sector and citizen groups. Part of the key to solving the housing problem is to get corporations to play a more active role in local housing issues. A primer was discussed as a possible way of informing Bay Area Council members about alternative actions they can take to urge increased housing production. The Council could encourage individual corporate involvement which could vary widely; from increased presence at local public hearings to the banking of land for residential development. A corporate presence at hearings is needed. Public hearings considering residential projects seldom, if ever, have people testifying in support of new construction. Corporations could assist in getting more housing built if they made their feelings known at public hearings, as well as educating their employees about the need for additional housing.

A more aggressive level of corporate involvement would urge corporations to buy land and then sell or lease it to developers to build housing. Corporate employees might have the right of first refusal on these homes. Other possibilities would be for corporations to consider joint venture residential projects with developers, particularly when they expand into new areas.

The Bay Area Council could provide strong leadership by encouraging corporations to play a bigger role in shaping local housing and community development. The Council might help develop an experimental program of corporate-developer joint ventures; develop a guide on how to effectively advocate corporate needs at local public hearings, or directly participate in local public hearings, in much the same way it now does on the regional level.

The advocacy programs can be developed independently, or compatible efforts could be combined. The idea of an independent housing institute won universal support among roundtable participants. Many of the advocacy programs could be operated under the overall direction of such an institute. All of the programs will require moderate financial support and a long term commitment. The advocacy efforts must be

continually maintained, to balance the well organized and well funded neighborhood and environmental groups now active at local public hearings throughout the Bay Area. The four programs are evaluated in summary form in Table 2.

### **III. FINANCIAL INCENTIVES**

One of the biggest causes of the Bay Area's housing shortage is the fiscal pressure brought on by Proposition 13. Land use planning, and development decisions are now often biased by the fiscal impacts of new development. In most communities, the fiscal impact of a new project is estimated before approvals are awarded. While communities have long been skeptical about development that requires expensive services, with Proposition 13, most projects get close scrutiny. Many fiscal impact models, such as ABAG's Cost-Revenue Impact System (CRIS) are widely used. With such close scrutiny, many housing projects are denied approval or required to front-end much of the fiscal costs.

These fiscal pressures are constraining residential development and pushing up the costs of houses that are approved for construction. Unless major changes are made in the way communities finance services, levy taxes and receive state subventions, residential development will continue to be constrained in many cities. What follows are several suggested strategies for ameliorating the fiscal pressures residential development.

#### **A. Revise How State Subventions Are Made**

The flow of State collected funds back to local governments does not now provide much incentive for these governments to produce housing. In fact, most communities are still desperately grabbing for commercial and industrial development. One way to encourage housing construction is to gear subventions to housing production, or possibly to gear it to the extent to which communities meet the requirements of AB 2853.

This change would greatly reduce the tendency of communities to discourage housing development. If the incentives were substantial, it is conceivable that much more housing would be produced. However, there

is likely to be much opposition to such change, particularly from older communities or those that pursue "exclusive" policies. With the expiration of State "bailout" funds, a new opportunity exists for creative redesign of State tax distribution policies.

Changing the distribution of state funds will be very difficult. The Bay Area Council should probably not attempt to mount a campaign to change the allocation of funds on its own. Rather it should closely follow the progress of AB 2853 and other housing bills chaptered in the Assembly last session. If insufficient progress is made towards implementing these bills, the Council, along with other housing lobby groups should push for legislation to tie state subventions to local housing production.

#### **B. Create New Quasi-Public Special Districts**

One possible way around local fiscal pressures is to create new special districts in the developing areas of cities and counties. These new development districts could float revenue bonds to finance needed infrastructure. This approach would still keep development in municipalities and still provide cities with tax revenues. What the new district would do is allow development to be provided with infrastructure financed by revenue bonds, not with expensive developer financing. This strategy has not been well explored, but it may be promising. Visalia's recent efforts in this direction should be evaluated as a model.

Creating new special districts will be difficult. Opposition can be expected from existing districts and citizens who fear that new districts are a way of doing an "end-run" on Proposition 13. Also, it will be complex to implement; necessary legislation will be needed in Sacramento, and communities must be persuaded to participate in the effort.

#### **C. Tap Corporate Funds for Development**

Corporate and public pension funds constitute a tremendous resource with which to finance infrastructure development, as well as providing construction and permanent financing. There are a variety of ways to structure financing arrangements,

TABLE 2

Summary Evaluation of Advocacy Strategies

Strategy	Public Acceptability	Local Government Acceptability	Developer Acceptability	Business Community Acceptability	Cost To Implement	Likely Effectiveness	Ease of Implementation	Time Required To Achieve Results
A. Create a Regional Housing Alliance	Moderate (depends on citizen attitudes about housing)	Moderate	High	Moderate-High	\$100,000/Year	High	Difficult	Medium-term
B. Promote Mixed Use Development	Moderate-High	Moderate	Moderate	Low-Moderate	\$30,000/Year	Moderate	Easy	Long-term
C. Advocate Early Neighborhood Involvement in Project Review	Moderate-High	Moderate-High	Low-Moderate	N.A.	\$50,000/Year	Low-Moderate (has risks)	Very difficult	Medium-term
D. Encourage Corporate Advocacy	Moderate	Moderate	Moderate-High	Moderate	\$15,000/Year	Moderate	Easy	Medium- to Long-term

joint venturing with a developer, working through a housing development corporation, etc. Financing could be provided at rates that are below commercial lending rates but above historical yields on pension fund investments. For qualified developers, the State could insure the loans at zero cost to reduce exposure to risk. Developers receiving financing would be required to pass cost savings along to home buyers. Corporate mortgage financing could be limited to employees (either directly, or pooled among several corporations). Another possible arrangement is for developers to give preference to employees of the corporation(s) providing finance capital.

The availability of low cost capital to finance residential development would help increase the production of affordable housing. However, much opposition to the proposal is likely to surface. Most corporations are strapped for capital, and now face high prime rates. Corporations need to measure the benefit of providing capital, before they can be expected to insert scarce resources in housing. While pension funds are a possible source, managers will be very skeptical about increasing their exposure to risk unless the return is well above current mortgage rates.

#### **D. Self-Help Housing Bank**

Another possible way of channeling low-cost finance into residential development is to create alternative institutions for construction finance for the individual owner-builder. Now it is very difficult, if not impossible, to get construction financing on owner-built units. Small cooperative ventures could play a pivotal role in providing support to owner builders.

Changing financial mechanisms to better serve the housing industry can greatly facilitate the construction of new housing. Efforts to provide more funds, regardless of whether they come from public or private sources should be launched.

#### **E. Tax Sharing**

In metropolitan areas, tax sharing is a way of mitigating the fiscal pressures of development on individual communities; it can also eliminate vicious competition between local governments. Generally, tax

sharing is limited to a particular class of property in the case of property tax sharing, and is usually project specific in the case of sales tax sharing. For example, two or more communities could agree to share forty percent of their additional tax revenues earned on commercial and industrial properties built after some point in time. By sharing the property tax revenues of commercial and industrial development, communities would be less inclined to practice fiscal zoning, and thus less likely to limit residential development.

While tax sharing is frequently cited as a means for solving fiscal stress and fiscal zoning, it is infrequently used. Obviously, some communities would have to give up tax revenues if they participated in the program. Opposition to sharing can be expected from some cities and counties, and some local taxpayer groups. If the Bay Area Council wants to push forward in this area, they should link up with other business and tax groups to promote incentives deemed necessary to make tax sharing attractive to local governments.

The five financial strategies are summarized in Table 3. Estimates of costs to implement the programs assume that the Bay Areas Council would mount campaigns to encourage necessary private or public action.

### **IV. LEGISLATIVE ACTION IN SACRAMENTO**

Although somewhat of a variation on the advocacy program outlined above, efforts to sponsor and get housing production legislation approved in the Assembly and Senate are needed. The best way for the Bay Area Council to proceed is to either hire a lobbyist to promote legislative action, or to tie in with the lobbying efforts of other compatible groups. Also, the direct participation of top corporate executives should not be overlooked. A lobbyist working for the Council could easily coordinate a corporate "presence" in Sacramento when key housing legislation was pending.

#### **A. Legalize Secondary Units**

In many older cities illegal secondary ("in-law") units are commonplace. If legislation could be passed to make them legal,



TABLE 3  
Summary Evaluation of  
Financial Incentives Strategies

Strategy	Public Acceptability	Local Government Acceptability	Developer Acceptability	Business Community Acceptability	Cost To Implement	Likely Effectiveness	Ease of Implementation	Time Required To Achieve Results
A. Revise How State Subventions Area Made	Low-Moderate	Low-Moderate (depends on community)	High	High	\$20,000/ (lobbying fees and expenses)	High if implemented but very uncertain	Extremely difficult	Medium-term
B. Create New Quasi-Public Special Districts	Moderate	Moderate-High	High	High	\$20,000/ Year	High if implemented	Very difficult	Medium-term
C. Tap Corporate Funds For Development	High	Moderate	High	Low-Moderate	\$10,000	Moderate	Difficult	Short-term
D. Self-Help Housing Bank	High	Moderate	Low-Moderate	Moderate	\$10,000	Low	Somewhat difficult	Medium-term
E. Tax Sharing	Low	Low	Moderate-High	Moderate-High	\$30,000/ Year	Moderate but unlikely to implemented	Extremely difficult	Long-term

but subject to building and safety inspection, many more new units may be developed in the younger suburban areas. If secondary units were legalized, many first-time homebuyers might be able to purchase housing since they could use the rent income secondary units to pay the mortgage on the house. Secondary unit legalization would also allow elderly households to rent out portions of their homes to economize on expenses.

While the legalization of secondary units will provide the option of earning supplemental income, and ease the rental housing problem, opposition is likely. Many neighborhood groups will oppose the legalization of secondary units. Most of the opposition to in-law units comes from fears that they will cause traffic congestion and change the character of the neighborhood. However, there is some indication that with changing demographics, auto usage and traffic problems will be less than they were when the average house was occupied by two parents and three children. The opposition is likely to be less heated in Sacramento than in communities, but the legalization of secondary units is likely to be opposed by the California League of Cities as an unwarranted intrusion on local land-use control.

#### **B. Binding Project Review Time**

While legislation was passed which requires local governments to review development projects within one year, the intent of the legislation is not being met. Communities are requiring developers to waive their rights or they are denying projects on the last day possible. The current legislation needs to be amended so that communities will more quickly review proposals.

A better approach would be to set statewide performance standards for project reviews. All local governments would be required to meet them. Perhaps fines could be levied on slow moving communities and incentives given to more efficient communities.

#### **C. Create a State Housing Intervenor**

Legislation creating an office of state housing intervenor could be useful to focus attention on the needs of unrepresented

interests in housing development disputes. An intervenor's presence in planning hearings and disputes could help to balance the usual overrepresentation of no-growth or preservation interests. An intervenor could be assigned to each metropolitan area and the rural portion of the state.

In last year's legislative session a number of bills were passed and signed by the Governor which facilitated the production of housing. In this year's session, effort must be made not to lose the legislative momentum created, and additional legislative action should be taken to insure that the mandates of AB 2853, 2320 and 3252 are met.

Table 4 summarizes the three legislative actions. The estimated costs assume that the council would work closely with a professional lobbyist. While the legislative programs have the potential of being effective; getting them implemented will be very difficult.

### **V. DIRECT CORPORATE INVOLVEMENT IN HOUSING PRODUCTION**

This final set of strategies focuses on several actions that the Council and its members could be directly involved in. These activities would directly lead to the production of additional housing in the Bay Area.

#### **A. Create a Regional Housing Development Firm**

Create a joint venture between a consortium of builders and developers, and corporations. Corporations could identify areas with housing need and make advance purchases of land. The joint venture could provide the capital needed for development and the corporate presence in communities could be used to help secure speeded development approval. If corporations begin to play a bigger role in local development issues, it would be a logical next step to begin sponsoring projects.

The advantages of joint ventures are that financial costs can be shaved down and synergies between developers and corporations created. Another advantage is that housing produced by joint ventures could be earmarked for participating corporations.

TABLE 4  
Summary Evaluation of  
Legislative Action Strategies

Strategy	Public Acceptability	Local Government Acceptability	Developer Acceptability	Business Community Acceptability	Cost To Implement	Likely Effectiveness	Ease of Implementation	Time Required To Achieve Results
A. Legalize Secondary Units	Low-Moderate (response will be mixed)	Moderate (depends on public response)	Moderate	Moderate	\$20,000	Very High	Extremely difficult	Medium-term
B. Binding Project Review Time	Moderate	Low	High	High	\$20,000	Low-Moderate	Difficult	Medium-term
C. Create a State Housing Intervenor	Low	Low	High	Moderate	\$20,000	Low-Moderate	Extremely difficult	Medium-term

However, there is likely to be much unwillingness on the part of corporations to participate in joint ventures. Many will feel that they aren't in the housing business, and that it is not their responsibility to provide opportunities for housing. While many of the previously discussed strategies try to increase the willingness and ability of local government to build housing, this action is presented as a direct intervention effort to get housing produced. Before individual corporations would be willing to take such actions, they would have to measure the direct costs and benefits produced by such a program.

### **B. Corporate Land Banking**

Related to the joint venture proposal, is the creation of a corporate supported not-for-profit land banking program. The land banking program would assemble and purchase land to be used for the construction of moderate cost housing. Instead of a public program of land banking, corporations could take the lead and assemble land in advance of development pressures. This land could be held and, when appropriate, released to developers for constructing housing. Developers would be restricted in the pricing of units built on the land. Units could be offered with a right of first refusal to employees of participating corporations.

The advance purchase of land can greatly reduce land costs. If property can be held and then resold at cost, housing costs can be cut drastically. Careful consideration must be given to the control of selling price of units and their resale. A possible way of keeping costs down and mitigating pricing and resale control problems is to retain title to the land and provide long-term ground leases. These leases could then be sold to generate capital for additional land acquisition.

### **C. Bring Legal Action Against Slow-Growth Communities**

The Bay Area Council, or individual corporations, could sue cities that artificially limit housing production. Under AB 3252, the burden of proving that a restrictive land-use device is necessary and will not adversely affect the region falls on the community. This makes the possibilities for

seeking remedies from growth control cities much greater. The Bay Area Council or a group of its members could file suit.

Legal action could also be taken by other groups sympathetic to the Council's interests or, if the regional housing institute were established, it could be the initiator of litigation. Legal action by the Council or a group of its members is consistent with the overall strategy of greater corporate involvement in local housing and community development issues.

Table 5 summarizes these three corporate action strategies. The estimated cost to implement is that cost likely to be incurred by the Council to stimulate corporate action. Corporate direct costs would obviously be much greater.

### **CONCLUSION**

This paper has presented twenty-three strategies for increasing the production of housing in the Bay Area. The job of the task force is to consider each proposed action and recommend which strategies should be pursued by the Council. If all of the strategies were attempted to be implemented, the total estimated year one costs would be \$840,000. Clearly, such a level of effort is not reasonable.

The Bay Area Council should consider implementing between three and five strategies. The criteria that the task force uses to select strategies for implementation should be based on effectiveness, cost, and time required to achieve results. It is important that initial Council efforts be successful, cost-effective and show quick payoff. The five tables included in this report are designed to help the task force choose strategies for recommendation to the Council's executive committee.

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TABLE 5

Summary of Direct Corporate Involvement  
in Housing Production Strategies

Strategy	Public Acceptability	Local Government Acceptability	Developer Acceptability	Business Community Acceptability	Cost To Implement	Likely Effectiveness	Ease of Implementation	Time Required To Achieve Results
A. Create a Regional Development Firm	Moderate	Moderate	Moderate-High	Low-Moderate	\$50,000	Moderate	Very difficult	Medium-term
B. Corporate Land Banking	Moderate	Moderate	Moderate-High	Low-Moderate	\$25,000	Moderate	Difficult	Medium- to Long-term
C. Bring Legal Action Against Slow Growth Communities	Low-Moderate	Low	High	Low	\$15,000	Moderate-High	Difficult	Medium- to Long-term