

THE SUBURBAN SQUEEZE: LAND-USE POLICIES IN THE SAN FRANCISCO BAY AREA

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A Suburban Land Squeeze Is Gripping the Region

A suburban land squeeze has hit the nine-county San Francisco Bay Area. Extensive post-war land development, increasing use of growth-management controls, more restrictive land-use and environmental regulations, and a "go-slow" development posture created by the passage of Propositions 4 and 13 have combined to reduce land conversion opportunities in the region considerably. Although the region contains an enormous supply of vacant land, because of its rugged topography or sensitive environmental character much of it cannot be developed. Other vacant lands that could be developed are restricted from use by local land-use controls. In 1975, the Association of Bay Area Governments (ABAG) conducted a detailed inventory of land use and the availability and potential use of vacant lands. The inventory recorded that of the region's 4.5 million acres, only 350,000 acres were vacant and "developable."¹ (Figure 1 delineates the Bay Area and shows the location of principal cities.)

Local Policies Are the Culprit

The suburban land squeeze is not the exclusive result of immutable natural constraints. It is the outcome of the restrictive land use and development regulations imposed by many of the region's 100 local governments. Controls over the potential use of land have placed severe limits on where, when, and how the region can develop. For

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¹*Summary Report, Provisional Series 3 Projections* (Berkeley: Association of Bay Area Governments, March 2, 1977).

FIGURE 1
SAN FRANCISCO BAY REGION



example, over 15 percent of the region's total land supply is in permanent open space controlled by local governments, the East Bay Regional Park District, and Federal National Recreation areas. For years, development has followed transportation corridors and filled valleys that lay outside the control of open space and park administration. During the early post-war years, there was ample room for suburban land conversion, and few attempts were made to stop development. Today, land conversion in suburban areas is not so easy. Most of the easily developable land has been urbanized, and a new mood has emerged in the suburbs. Continued suburban land conversion is now viewed as undesirable, and efforts to limit residential development are well organized and increasingly effective. Fiscal pressures are mounting, and most communities view additional residential development with great skepticism. The increased awareness of the environmental impacts of land conversion, fiscal pressures, and the dwindling physical supply of easy-to-develop land has radically altered the climate of suburban land conversion in the San Francisco Bay Region. The particular trends evident in local Bay Area communities are very alarming.

Residential Densities are Falling. If future development were to occur at current density levels, and if land use policies effected in 1975 remain unchanged, the region could accommodate a population of over 9 million. In reality, however, development densities for new residential construction are substantially lower than historical density levels, and recent evidence suggests that they will continue to decline. In 1975, given the existing local development policies, the Association of Bay Area Governments (ABAG) estimated that the supply of land available for residential development would not be sufficient to meet projected housing demand beyond 1990.² In other words, the supply of developable land in 1975 could not accommodate a projected 1990 regional population of just under 6 million.

The Rise of Local Growth Controls. The pro-growth attitude prevailing in most Bay Area communities in past decades has been replaced by a slow-growth posture, brought on by rising governmental fiscal concern over Proposition 13. Cities that once relished being regional growth centers now view growth with much skepticism. With the new fiscal calculus of Proposition 13, single-family development usually generates higher costs than revenues in the public

²Stan Hoffman and Rune Carlson, "The 'Compact Growth' Projection Alternative for the Air Quality Maintenance Plan," PTEC Working Paper, (Berkeley: ABAG, July 19, 1977).

sector. This fact, in conjunction with a greater recognition of the environmental impacts of development, has inclined many communities to slow residential development.

Infill Development Is Not a Panacea. While many planners tout the ability of so-called infill development in urbanized areas to accommodate housing projects, the strident opposition of neighborhood groups to any use of vacant urban land makes developing such parcels difficult if not impossible. Besides neighborhood opposition, a national study of infill potential found that vacant urban parcels were often too small and too expensive for housing development.³ Also, parcels were frequently withheld from the market by owners unwilling to sell them.

Jobs, But No Housing. With Proposition 13, most communities have altered their approach to land-use planning and zoning. Caught in a fiscal squeeze, many towns have stepped up efforts to increase their tax base by attracting more commercial, office, and light industrial development. While attempting to attract economic development, most communities have not concomitantly adjusted their zoning to provide housing for additional employees. Consequently, new employees, particularly those migrating to the region, find it extremely difficult to acquire affordable housing. In terms of land availability, the ratio of residentially developable land to employment-generating land is out of balance. More land needs to be placed in residentially developable zones and less in commercial, office, and light-industrial use.

Looking Out for Number One: Cities Against Cities and Counties. While local governments in the Bay Area have always pursued their own interests, recently intergovernmental competition and cutthroat behavior have escalated to alarming proportions. Competition is no longer a tug-of-war between cities to see who can attract the most development. The game is now more of a pushing match to see who can push the most fiscally and environmentally costly growth off onto other communities. These community pushing matches have enormous implications for the long-term development of the region, and are becoming very serious as more communities join in. In the past, as long as the number of communities attempting to push growth off onto their neighbors was small, the regional impact of such policies

³*Urban Infill: Its Potential as a Development Strategy* (Chicago: Real Estate Research Corporation, October, 1981.)

was minimal, since other towns could absorb the growth without much difficulty. With most towns trying to export undesirable growth, fewer communities remain that are willing to pick up this pushed-off growth.

The Adversity of Supply Restrictions

If the current local land-use and development control policies remain unchanged, their inflationary impact on land and housing costs will ultimately slow the region's rate of economic growth and eventually affect its economic structure. Higher land costs will directly translate into higher rents and building costs. Higher land and housing costs will force up wage rates, as workers are forced to pay higher housing costs. These higher wage and building costs will reduce the Bay Area's attractiveness to business and industry. As costs of housing and office and industrial space escalate, firms that are not able to meet these rising costs will move elsewhere. Firms such as Del Monte and Blue Cross/Blue Shield have recently left the region. These relocations cause hardship for employees: forced relocation or job loss. In Silicon Valley there is much concern over the increasing tendency of high-technology firms to develop production facilities outside the Bay Area. If a significant number of firms leave the region, finding substitute jobs may become more difficult—particularly if the job losses are concentrated in the clerical and blue-collar areas. The distribution of jobs in the region could conceivably shift from a more balanced mixture of professional, blue-collar, clerical, and service types to exclusively high-wage, high-productivity executive types. What has happened to San Francisco over the years may happen to the entire San Francisco Bay Area; that is, the whole region could become gentrified. Imagine the Bay Area as a homogeneous concentration of white collar professionals serviced by poorer workers who commute in from Stockton or Tracy.

With fewer job opportunities, due to a slower rate of economic growth, the region's younger population will have to seek work elsewhere. Perhaps this will be an analogous version of Italy; while southern Italian youth head to Milan and Turin and other points north to find work, San Franciscans will head south to Los Angeles, Orange County, and San Diego.

All workers will feel the effects. Unless they are willing to move elsewhere, the chances for job promotions, salary increases, and enhanced power and prestige will be limited if the region's economy slows down. In a steady-state economy, the size of a firm will remain constant; the chances of getting promoted depend on who retires, quits, or dies. (Unless, of course, you agree to move to a corporate

division in, say, Omaha.) For better or worse, people have a solid stake in economic growth. While economic growth doesn't guarantee more employment opportunities for the unemployed and underemployed, the prospects for economic advancement in the steady-state economy are slim.

The Problems of Continued Urban Sprawl

All of these projected impacts of economic strangulation are possible, if we let cost pressures dictate the region's development. This is not to suggest, however, that the San Francisco Bay Area should continue to develop unchecked; the prospects of paving over the landscape are every bit as alarming as letting land inflation choke off growth.

Fears of turning the Bay Area into another Los Angeles have been voiced since the late 1950s. Many planners were afraid that the region would become completely urbanized. For example, two highly regarded demographers, Kingsley Davis and Eleanor Langlois, projected that the region's population would rise considerably between 1960 and 2000, that the population density would continue to fall, and that therefore the extent of urbanized land in the region would increase substantially.⁴ The environmental impacts of such a scale of development are substantial:

In 1920, when the urbanized area included only 157 square miles, it was not hard to get out of the city. When the sprawling metropolis of the year 2000 covers 7,663 square miles, the distance from the center to the periphery will be approximately fifty miles. Even after one has traversed the fifty miles, there will be no necessary release from urban congestion, for the traveler may simply find himself in the Sacramento or Stockton urban complex.⁵

However, ABAG estimates that by the year 2000, the region's population will be 6,205,018, and that its urbanized land area will reach only 1,069 square miles. The problem is no longer the paving over of the region; it is whether there is enough developable land to accommodate growth.

Pressing Regional Problems

Fears that the San Francisco Bay Area will become completely urbanized have been joined by more recent concerns that growing restrictions on land conversion and development by local jurisdictions are beginning to limit urban development in the nine-county

⁴Kingsley Davis and Eleanor Langlois, *Future Demographic Growth of the San Francisco Bay Area* (Berkeley: Institute of Governmental Studies, 1963).

⁵*Ibid.*, pp. 26-27.

region. The region's future urban development is being determined by the individual land-use policy decisions made by over 100 local governments. Over the years, the staunch independence of the region's local governments was regarded as desirable, guaranteeing diversity in living environments and public services. While efforts were made to make local governments more responsive to the needs of the region's low-income households, and State Assemblyman Knox introduced his bill to establish a regional government, the Bay Area has never seriously considered creating a regional government with broad controls over land use and development. In the past 10 years a number of subtle changes have cumulatively altered the climate for continued urban development on the suburban reaches of the Bay Area. These shifts have had the overall impact of constraining residential development. These constraints have created a variety of concerns:

1. The region's housing supply is being restricted, and it is not keeping pace with growing housing demand.
2. Housing and land prices are escalating sharply.
3. As workers scramble to find affordable housing, there is a growing imbalance between the location of jobs and housing.
4. The jobs/housing imbalance is crowding the region's transportation system. Freeways in the southern portion of the Bay Area are extremely congested as more people have to live in lower-cost housing areas in southern Santa Clara County and southwestern Alameda County and commute to jobs in northern Santa Clara County.
5. Because more communities are restricting residential development or reducing the permitted density of housing development, sprawl continues, leapfrogging out to more hospitable areas or consuming land at very low density.

A Survey of Local Planning Departments

In an effort to assess the regional implications of local land-use policies, the Institute has been surveying Bay Area planning departments since the spring of 1979. The results of the survey provide a useful picture of the current state of local land-use policies and allow us to develop several important conclusions about the regional impacts of restricted suburban development opportunities. The survey confirms that the future of land conversion in the Bay Area is not bright; opportunities for continued residential development appear to be limited; and there are already signs that a severe housing shortage

is beginning to affect the continued expansion of the electronics industry in Santa Clara County.

This research shows that many cities that once were accused of land-grabbing have now curtailed land annexations. Wary of expanding city services to outlying unincorporated areas, cities are not courting annexation proposals. While some cities limit annexation to adjacent parcels, others simply refuse to annex unless forced to by the Local Agency Formation Commission (LAFCO). In most instances, no annexation means that development cannot occur. While it is possible to get county approval for development in unincorporated areas, counties are also facing fiscal constraints. In Alameda County, for example, a proposal was recently put before the Board of Supervisors to reduce rural development densities even further. The concern was that if the county allowed development to occur in clusters, the new residents would then band together and demand increased fire and police protection, both of which are costly.

Fiscal considerations also play an important role in shaping the development of incorporated areas. Many planners indicated great interest in the possible use of fiscal cost-revenue impact models for assessing the effects of proposed land development projects. These models are used to determine the tax and expenditure implications of proposals. Often their findings are used to keep out projects that would not be likely to generate a fiscal surplus.

This survey confirmed that continued development was a growing concern of citizens. Over one-third of the respondents, representing 34 communities, indicated growth as a major local issue. Of these 34 communities, nine had implemented growth-management ordinances, and seven others either had proposals pending adoption, or were considering them. While each ordinance is designed differently, the effect is the same: to restrict the pace and extent of development. Many of these programs, by the way they are administered, delay *all* development, in some cases up to a year. For instance, cities using a competitive allocation system accept proposals throughout the year, and then meet only once or twice per year to decide which projects can proceed.

The survey also documented the increasing use of development controls to protect environmentally sensitive areas. Nearly one-half of the region's cities have, or are currently developing, slope density ordinances to regulate hillside development. Using the slope grade as the determining factor, residential areas may be downzoned from minimum lot sizes, of 10,000 to 20,000 square feet, to 1–10 acre minimums. The increasing use of this technique suggests that devel-

opment, having consumed much of the land on the valley floor, is now encroaching on the hillsides.

Downzoning is by no means limited to environmentally sensitive areas. Over one-third of the planning agencies indicated density and preservation of a community's single-family character as significant concerns. Citizen expectations, then, can have as great an impact on land use as the land's own inherent characteristics. One Bay Area developer designed a mixed project combining both high- and low-density residential units, but made the mistake of constructing the single-family units first. When he later tried to phase in the multi-family units, he met with considerable opposition from the newly settled residents in the single-family homes. Our research found these concerns about density increasingly evident as motivation for recent zoning changes. Approximately 39 communities have downzoned residential densities over a significant portion of the community, further reducing development potential in the region.

Another indication of the increasingly cautious approach to development is the use of moratoria to halt development, giving a city time to study its options. In recent years, over 45 communities have used this technique to defer development, while new plans or policies are devised to deal with problems generated by rapid growth, environmental impacts, or service-capacity constraints.

While these actions are understandable when viewed at the community level, we believe that the long-run economic and social well-being of the Bay Area depends largely on the availability of land suitable for residential, commercial, and industrial use. Communities are adopting policies that, while furthering their own short-run interests, are likely to have dire consequences for the region.

Why Local Land Use Policies Have Changed

How a community decides to control land use conversion and development depends on a variety of historical, cultural, political, fiscal, and environmental factors.

Critics of the go-slow mood are quick to suggest that the growth-limitation binge is the result of elitist newcomers trying desperately to preserve what they came to enjoy. It is sometimes referred to as the "gangplank syndrome," where newcomers try to stop others from moving in. Such a characterization is incorrect; it is overly simplistic, and it erroneously places too much emphasis on elitist citizen pressure. Other factors are at work, including intergovernmental finance, environmental degradation, and the general but hard-to-pin-down

effect of what Toffler calls "future shock": the inability of people to cope with rapid social and cultural change.⁶

Until recently, many Bay Area communities have been the passive recipient of substantial residential and commercial development. Most towns accepted growth as inevitable, and a few actively pursued new development. To guide this development, towns and counties relied on zoning and general plan guidelines that were, at least in the beginning, very unsophisticated. Most community zoning ordinances, for example, failed to consider the environmental characteristics and development implications of the region's hillside areas. In fact, until the early 1960s, many communities' hillside areas were zoned at the same density as the flatlands.

Historical Growth Patterns

Prior to 1950, development was primarily concentrated in the central Bay Area. The two central cities of Oakland and San Francisco accounted for more than 50 percent of the total population in the nine-county region. To the north and south of San Francisco, and to the east of Oakland, agriculture was still the dominant land use in the 1940s.

During the early post-war years, the Bay Area began to change rapidly. The 1950 census revealed new patterns of development. Returning veterans took full advantage of Veterans' Administration home loans. The demand they created was accommodated by developers who availed themselves of the low-cost land on what was then the urban fringe. In 1950, for instance, nearly one-half of all new units in Alameda County were built in unincorporated areas. San Mateo County, once a haven for the wealthy, doubled its population in a decade; Santa Clara County experienced a two-thirds increase.

Between 1950 and 1960, the Bay Area population increased by nearly 1 million. Much of this growth was concentrated in southern Alameda, San Mateo, and Santa Clara Counties. South of Oakland, along the Bay, San Leandro and Hayward grew by 140 and 400 percent respectively. In San Mateo, along Route 101, five cities more than doubled their populations.

Land development in the decade preceding 1960 set the pattern for the years to come. Growth spread out along all major transportation corridors; small towns within commuting range of employment centers became major cities in a few short years. During the decade it was common for communities to boast about their growth rates,

⁶Alvin Toffler, *Future Shock* (New York: Random House, 1970).

with several above 400 percent. Cities competed for both industrial and residential development.

During the 10-year period from 1960 to 1970, the Bay Area again grew by nearly 1 million. Few cities were untouched by the increase, and the '60s saw several notable new trends in development. Growth spread south in Alameda County into the Fremont/Newark/Union City area, and east along the Interstate 580 corridor into the Livermore Valley area. The widening of Highway 24 in Contra Costa County opened up thousands of acres to development. Cities along the freeway such as Lafayette, Pleasant Hill, and Walnut Creek experienced substantial gains in population.

Though industrial development was minimal to the north of San Francisco, towns along U.S. 101 gained significant commuter populations. While Sonoma and Napa Counties retained their agricultural character, the cities of Santa Rosa and Napa developed into regional centers of substantial size.

In the South Bay, development continued as it had in the preceding decade—at an extraordinary pace. Rapid growth in light industry provided exceptional employment opportunities. By 1980, Santa Clara County, with 25 percent of the region's population, surpassed Alameda and San Francisco to become the region's largest county.

By 1975, development had consumed nearly half of all the developable land in the Bay Area. Population, once concentrated in the central portion of the region, shifted south and east. Now, since many cities in the South and East Bay are solidly built up to their city limits, pressure to develop in the North Bay has increased dramatically. North Bay counties, traditionally agricultural, view this shift with mixed emotions.

The historical process of urbanization has had two fundamental effects on the posture of local communities towards land development. First, the historical pattern of centrifugal development introduced an entire new set of rural communities to growth pressures. Second, the impact of substantial post-war growth began to exert itself on communities, particularly traffic congestion, air pollution, and dwindling open space. Towns impacted by rapid urban development increased from a handful to several dozen. Peripheral development in the region exposed many more communities to planning issues, and as a consequence, led them to consider more sophisticated development regulations, and ultimately revamp their general plans and zoning ordinances.

Growth Pressures Created A New Mood

Over time, the rapid rate of land conversion in the region's rural areas began to attract considerable attention. The conversion of fruit

orchards in Santa Clara County, and pressures on the vineyards of Napa and Sonoma Counties, focused attention on the adverse affects of urban development on the region's landscape. By the late 1960s the environmental movement had shifted into high gear. By 1972, environmental regulation in the Bay Area was well developed. In Sonoma County, the city of Petaluma adopted its controversial growth management plan, which limited the number of building permits that could be issued in any one year to 500; this gained widespread attention. Given its importance in shaping local land-use and environmental regulations in the region, the Petaluma case warrants closer study.

In the 1960s, the widening of U.S. Highway 101 clearly put the city of Petaluma within the sphere of San Francisco. City workers looking for inexpensive housing, large residential lots, and good schools were attracted to Petaluma. Residential construction boomed, and rapid growth greatly strained city services. The new development forced the city to provide substantial new services and expand existing facilities. Congestion developed on the city's streets, and long-time residents denounced new growth as having destroyed the small-town character of Petaluma. A report by the American Society of Planning Officials details the Petaluma plan:

In response to these concerns, a series of goals were adopted. Growth was to be limited to approximately 500 new housing units annually from 1973-1977. The city's small-town character and surrounding open space were to be preserved by controlling the rate and distribution of growth. Development was tied to school and utility capacity and balanced between eastern and western sections. With the cooperation of Sonoma County, all urban and suburban development near the city would be approved by and acceptable for annexation to the city. A permanent greenbelt of open hills and marshland and open space for recreation would be provided. Environment design plans, planned community districts, and planned unit developments would be required to gain the best design possible. Multifamily units would be encouraged and a variety of densities and building types ensured. The central business district was to be rehabilitated as the principal commercial center of southern Sonoma County.⁷

This marks a radical departure from traditional community planning. In the United States, particularly during the post-war period, local planning can be best characterized by its attempt to accommodate new growth in an orderly fashion. Prior to Petaluma's growth management plan, most communities had not overtly attempted to

⁷*Urban Growth Management Systems*, P.A.S. Report Nos. 309 and 310 (Chicago: American Society of Planning Officials, no date).

limit or restrain development. The widespread attention accorded the Petaluma plan has had substantial impacts on local planning. At annual meetings of the American Institute of Planners and American Society of Planning Officials, lively discussions of growth-management programs have been rituals. Many communities confronting similar growth pressures began to experiment with growth management. By the mid-70s, national surveys of planning activities began to reveal a growing trend towards the use of growth-management devices. In a survey by the International City Managers Association, over 220 cities and counties indicated that they were using planning controls to regulate the rate of urban development.⁸ In California, the State Office of Planning and Research Annual Planning Agency Survey found that over 300 of the state's 445 local planning agencies were using growth management and more traditional techniques to control the rate of land development.⁹ In the Bay Area alone, this 1975 survey identified nearly 50 communities that were attempting to control the pace of development. The effects of growth management on housing and land markets are just beginning to be felt as more and more towns adopt growth management programs.

The use of growth controls by California communities is likely to increase. Such controls allow the community to avoid increased fiscal costs, minimize the rate of land conversion, and preserve environmental and overall community quality. Also, the fiscal squeeze created by Proposition 13 has made communities exceedingly cautious about the benefits of new development. Because tax revenues from new development are limited to only one percent of the full market value, many projects will not generate enough tax revenues to support the public services they need. With less revenues generated by projects, the margin of error in deciding which projects to approve or deny is narrow. As a consequence, many communities are not approving fiscally questionable projects, while other towns with more sophisticated cost-revenue estimation models are using them to determine which projects will generate an excess of tax revenues. Proposition 13 is a strong justification for limiting urban development.

While the fiscal arguments for growth control have been mounting, concern for environmental and neighborhood quality has also been increasing. Rising incomes and increased leisure time have contributed to the greater demand for high levels of environmental quality.

⁸"Managing the Environment at the Local Level," *Urban Data Service Report 2/74*, International City Managers Association, 1974.

⁹Office of Planning and Research, *Local Government Planning Survey*, State of California, 1976.

The increased sophistication of citizens about environmental issues and how development affects environmental quality has helped to expand the role of citizen involvement in local land-use and environmental decision making. Citizens no longer assume that the planners or elected officials know what is best and that they must passively accommodate new development.

As a result of this new style of local planning, cities are more aggressively seeking their own objectives and are placing less importance on regional development needs or the regional implications of their local actions. While it would be erroneous to suggest that communities have not always pursued their own self-interest, we believe that in recent years the nature and interaction of local development decisions have changed fundamentally. In the post-war period, communities either accepted development as inevitable or often sought it aggressively. Even when a large number of towns actively sought growth, the regional impacts of this growth-seeking competition were usually considered desirable. Communities are still interested in high-quality development; the proverbial dream industry of research and development is still much sought after, but they are also interested in exporting or blocking undesirable growth. Communities will accept new tax-revenue-generating R&D, but they will at the same time curtail housing production, even if the housing is targeted towards the R&D workers.

Efforts to block development, or to allow only the very best or most desirable types of development, are not new. Land use and zoning history chronicles numerous cases where local communities exerted considerable control over the type of residential development permitted within their borders. In fact, zoning in the United States is founded on the principle that it will be used to protect and preserve property values.¹⁰ What is different today is not that towns try to skim off the best type of development and block the entry of less desirable or more commonplace development, but that the practice of limiting growth has become so widespread. The days of uncritical pro-growth boosterism are over.

As each community attempts carefully to control the rate and type of development, the problems of restricted growth at the regional level become much more pronounced. There is no indication that local governments will soon begin to incorporate regional needs into their decision making. The fragmented nature of local land use and environmental planning is well documented. For example, over 10

¹⁰Richard F. Babcock, *The Zoning Game*, (Madison: University of Wisconsin Press, 1966).

years ago, the *California Law Review* published an article deriding the selfish and short-sighted nature of local government development policies.¹¹ Despite frequent attempts to pass legislation to alter the mercantilistic pattern of local governments, reform is no more likely now than it ever was.

The most recent discussion of the regional problems engendered by local actions is centered in Santa Clara County. Exacerbated by the rapid growth of the electronics industry in Silicon Valley, the county commissioned a task force to study the growing problem of limited housing. Northern Santa Clara County communities have aggressively sought new manufacturing firms and increased employment, but have almost universally limited the construction of housing to meet the needs of an expanded employment base. Despite the fact that a limited supply of housing has begun to drive up prices, and slow the rate of economic development in the county, no community appears willing to alter its land development policies to allow for an increase in the production of housing. The task force's report identified the need for more housing,¹² but only a few communities have attempted to deal with the problem.

The main center of concern is in the private sector. The Santa Clara County Manufacturing Group has been monitoring the trends, and has called for more residential construction. The Bay Area Council, the region's influential private-sector planning organization, has established a housing task force to study the area's housing markets and recommend strategies to increase the opportunities for residential development. Change is not likely to come from local planners or local elected officials. Both must continue to promote the interests of their constituents or face recall or firing. Even though they know that the region desperately needs additional housing, local officials are forced to deny building permits for residential projects when local sentiment against such development is vocalized at planning and city council hearings.

The basic contradiction between local and regional interests is painfully apparent in the housing arena. The problem is in fact an excellent example of the prisoner's dilemma. If one of the communities in Silicon Valley were to say, "All right, we recognize the dire regional consequences of restricted housing production, and we are prepared to provide more housing," the other cities in the area would

¹¹Steven H. Goldfarb, "Parochialism on the Bay: An Analysis of Land-Use Planning in the San Francisco Bay Area," *California Law Review* 55 (1967): 836-55.

¹²See *Living Within Our Limits*, the report of the Santa Clara County Industry and Housing Management Task Force (San Jose: County of San Jose Environmental Management Agency, November 1979).

be able to continue to cream off fiscally desirable economic development and export residential development to our noble but foolish community.

Examples of mercantilist action in Santa Clara County are abundant. The city of San Jose, the growth center of the county and the historical center of suburban residential development, has recently altered its policy on residential development. Citing fiscal pressures and the imbalance of predominant residential development resulting from its historical role as a residential suburb, the city has now taken steps to limit the location and type of residential development permitted and is attempting to attract more industrial and commercial development. This shift in land development policy has the net effect of moving San Jose from its original role as a provider of housing into a position of competing for economic development opportunities with other county communities. Another example is the City of Santa Clara. Its zoning and general plan greatly curtail the development of residential projects. Most of the vacant land in the city is zoned industrial, and the city has taken few steps to balance this economic development potential with the necessary level of housing to meet the needs of additional workers.

Needless to say, the regional implications of efforts such as these are adverse if enough communities follow suit, and recent survey results of local development policies clearly indicate that this is happening. Ultimately, if housing opportunities in the region are limited by attempts to maximize tax and economic benefits or to preserve environmental or neighborhood quality, the housing market will become extremely tight, and eventually high housing prices will exert severe economic pressures on all sectors of the region's economy.

The Regional Impacts of Local Land-Use Policies

While 20 years ago over 40 Bay Area towns provided ample land for development, new growth pressures are concentrated on 16 cities and the unincorporated areas of Contra Costa County. Between 1975 and 1979, these regional growth centers accounted for 67,000 housing starts, about 46 percent of the region's total production. As we have seen, this concentration of regional housing production is a reflection of the historical patterns of development and land conversion, and of the restrictive land-use policies of many other Bay Area communities. What are the implications of this concentrated pattern of land conversion on the region?

The Geography of Regional Growth Has Shifted

Unless trends change, the principal area of growth will be in the northeast portion of the region. Seven of the 16 growth-center cities are located in northern Contra Costa and Solano Counties. These cities, along with the unincorporated portion of Contra Costa County, provided nearly 24,000 housing units between 1975 and 1979, accounting for 16 percent of total regional production. The availability of cheap, buildable land, together with limited restrictions on land development, has made this the prime area of large-scale residential development. While this area has not historically been the center of much employment development, demand for housing has been strong. Many first-time buyers are willing to commute long distances to work in order to buy affordable housing. This mismatch between the locations of affordable housing and employment is evident in the growing traffic congestion on Interstate Highways 80, 680 and 780. Over time, however, it is likely that jobs will follow housing into the northeast portion of the region.

The imbalance between job and housing location is also a major problem in the southern portion of the region. While substantial employment growth has occurred in southern San Mateo and northern Santa Clara Counties, little housing has been provided. Consequently, housing pressures are intense and many workers in the high-technology industry are forced to commute from the East Bay. Traffic levels on the San Mateo and Dumbarton Bridges have grown considerably in the past five years, and the housing markets in Fremont, Hayward, Castro Valley, and Livermore are affected. While people are willing to make long commutes, many high-technology firms say that they are beginning to have trouble attracting employees. The Santa Clara County Manufacturing Group, an organization of high-technology firms, has estimated that enough land is zoned to create nearly 250,000 jobs but only 80,000 housing units. The efforts to attract fiscally desirable, clean industry has led many Santa Clara County communities to provide large tracts of industrially zoned land and not much residentially zoned land. If only one or two of the cities did this, the housing impacts would not be great, but most of the larger cities in the county have adopted policies favoring industrial and commercial development over residential development. The Manufacturing Group has been pressuring local governments to alter their land-use and zoning to permit construction of housing in what is now industrially zoned land. Unless substantial changes occur in the local zoning ordinances of most cities in Santa Clara County, the growing imbalance between job and home location will persist.

Without the renewal of residential development in such areas as the northern part of Santa Clara County, bayside San Mateo County, or southern Marin County, new residential development will continue in other parts of the Bay Area. The implications are that moderate-income home buyers will be forced to purchase houses in Solano and eastern Contra Costa Counties and in scattered cities in Alameda and coastal San Mateo Counties. The residential development of these outlying areas of the region will generate substantial urban sprawl, and will continue to fuel the process of economic decentralization away from San Francisco and Oakland. The rapid development of office buildings in Walnut Creek, Danville, San Ramón, and Dublin is indicative of this trend.

While the overall results of such decentralization are complex and not completely understood, the development of these outlying centers may have adverse consequences for the region's older centers. The office boom in Contra Costa County makes it very difficult for cities like Richmond, Berkeley, and Oakland to intercept decentralizing firms.

Local Growth Restrictions Have Affected Competition Among Builders

One clear result of the local planning survey is that land-use regulation has become much more complex in the past 10 years. Anyone attempting to develop land in the Bay Area must now go through many steps to obtain permission to develop. While the closer scrutiny provided by the more sophisticated regulations has protected the environment, it has also led to a lessening of competition among developers. The building industry is now much more concentrated than 10 years ago; today there are fewer builders, and those who are developing residential projects are larger and have a greater control over local markets.

Local land-use controls can restrict competition in the construction industry in several ways. First, zoning and open-space preservation limits the supply of land available for development which acts as a barrier to entry to new firms. Zoning makes it easier for one or two developers to tie up land. If only a few developers control all of the developable land in a local housing submarket, they can keep the price of new housing high, above the level that would normally occur if the local market was competitive.

Another way local land-use controls unwittingly confer monopoly power on developers is their extreme complexity, making developers reluctant to enter local markets. The costs and uncertainty of adjusting to new and unknown administrative programs is high. Devel-

opers who have established good working relationships with planning staffs have a better chance of obtaining development approval. If developers can shepherd projects through complex administrative review systems, they can and will charge excess prices for the approved units. For example, a study of developments in San Jose found that after holding constant for increases in labor, materials, and land costs, and for increased public requirements and housing quality, between 1967 and 1976, the two developer projects analyzed increased their gross profits (in constant dollars) by between 158 and 231 percent.¹³ The researchers concluded that these excess profits were partially the result of constrained housing supply and the exercise of monopoly power by the developers.

A third way that local government policies can restrict competition in land and development markets is through the increased financial requirements placed on developers to provide public infrastructure. With the passage of Proposition 13, communities are now hard-pressed to provide the infrastructure needed for new development. Consequently, localities now require developers to provide needed utility systems. While shifting the financial burdens to developers solves the immediate fiscal concerns of local government, it makes it very difficult for small developers to operate. As front-end costs increase, the small developer-builder finds his capital costs rising. If present trends continue, only the largest, well-capitalized firms will remain in the marketplace, and the concentration of economic power in the hands of a few large developers will continue.

With the present widespread use of restrictive land-use controls and the shifting of public-sector infrastructure costs onto developers, the reduced level of competition in the residential construction industry is likely to continue.¹⁴ Limited competition and greater economic power will exacerbate housing price inflation in the Bay Area.

Regardless of whether suburbs are limiting residential development because of no suitable land, increased citizen opposition to new development, or fiscal pressures, the implications are the same: the region's housing supply will not expand to meet the demand projected for the 1980s. This housing squeeze will continue to drive up housing prices and place extreme hardship on young families. If housing price increases maintain a sustained upward climb, the vital-

¹³Gruen, Gruen and Associates, *Effects of Regulation on Housing Costs: The Case Studies* (Washington, D.C.: The Urban Land Institute, 1977).

¹⁴David E. Dowall, "The Effects of Tax and Expenditure Limitations on Local Land Use Policies," *Perspectives on Local Public Finance and Public Policy*, vol. 1, forthcoming.

ity of the regional economy will be jeopardized. Fortunately, key regional and state groups now recognize the scope and magnitude of the problem and are beginning to develop programs to solve the region's housing problem.

Solving the Suburban Squeeze

The fundamental problem facing the San Francisco Bay Area, and many other high-demand metropolitan areas, is the low level of housing production.¹⁵ Solving the problem will be difficult and politically contentious. It cannot be solved without the joint cooperation of local and state government, developers and businesses, and citizen groups.

Removing Fiscal Disincentives

The first change needed to produce more housing is to change the structure of intergovernmental fiscal relations so that housing is no longer perceived as a fiscal "albatross." This would require that state funds to local governments be partially geared to local housing construction. If the incentives were substantial, it is conceivable that much more housing could be produced.

Another possible way of eliminating the fiscal disincentives of housing production is for states to take over the financing of local infrastructure and selected services (such as education). Freeing local governments from having to provide these services would reduce the tendency of local governments to block new development. Or if the "top-down" approach to infrastructure finance is unacceptable, new quasi-public special districts could be created to finance services. New service districts in developing areas could float revenue bonds to finance infrastructure.

Funds to support residential development also could come from corporate and public pension funds. If the housing squeeze gets worse, some businesses, particularly those that are not footloose, may be willing to finance or partially underwrite infrastructure finance. A frequently mentioned technique for eliminating fiscal zoning is tax-base sharing. If a regional property tax sharing district were created, cities might be less inclined to develop industrial and commercial districts at the expense of housing.

If intergovernmental fiscal relations could be altered slightly, so

¹⁵While the San Francisco Bay Area has the most chronic case of restrictive land-use regulation, other metropolitan areas show signs of land constraints (Houston, Washington, D.C., Boston, New York). For a discussion of these areas see D. E. Dowall, *The Suburban Squeeze* (Berkeley: The University of California Press, forthcoming).

that housing was not viewed as a fiscal drag, efforts to promote housing production would be greatly facilitated. However, changing the financial picture alone will not guarantee more housing; other changes are needed.

Promoting Higher Density and Mixed-Use Development

The density of residential development in many metropolitan areas continues to fall. Attitudes about high-density development are largely negative, and are reflected in the marketplace and at public hearings. A recent Bay Area Council public-opinion poll found substantial 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 same respondents agreed that "high density housing means lower quality of life."¹⁶ The negative response to high-density environments is based on many factors, but one reason people are against it is because they don't know what the benefits are, and they don't know of any good examples.

While somewhat less controversial, mixed-use development suffers from a similar negative image. Most cities refuse to permit housing in commercial and industrial areas. Much of the resistance to mixed-use development stems from neighborhood opposition, problems of security, and conflicts over circulation between different types of users.

If land is to be used more economically, communities must begin to permit higher density projects and allow housing in commercial and light industrial areas. An educational and technical assistance program could begin to reduce opposition to high-density and mixed-use development. Such a program should concentrate on planning commissioners, elected officials, planning staff, and neighborhood groups. The educational and advocacy effort could be mounted by state or regional governments, or by specially created private, non-profit institutes. While it will be difficult to convince communities that higher density and mixed-use development is needed to provide housing and preserve environmental quality, it is fundamental for solving the suburban squeeze.

A Regional Housing Advocacy Group Needed

There are no well-organized groups to advocate increased housing production. Opposition to development comes from residents who

¹⁶*Bay Area Poll* (San Francisco: The Bay Area Council, 1980).

have much to gain and little to lose by stopping development. At present, only the project developer stands as the primary advocate of housing development. Future homeowners, workers who cannot afford to live near where they work, and businesses that cannot find workers have no representatives at local planning or city council hearings.

A regional housing advocacy group to aggressively promote housing production in communities could be very effective. The advocacy group could operate on three distinct levels. It could act as a clearinghouse for information about how to increase housing production. It could distribute model ordinances and information on how to promote dense, compact development and on the advantages of higher density and mixed-use projects. On a second, more active level, the advocacy group could provide technical assistance to communities wanting to reduce development permit processing time, rezone industrial land, and allow mixed-use development. The advocacy group could also make presentations to elected officials, planning commissioners, planning staffs, and neighborhood groups to explain why more housing is needed, what the benefits are of higher density development, how it can be provided without disrupting the local environment, and what services the advocacy group could provide to communities.

The advocacy group also could operate as an aggressive force to press communities to increase housing production. The group could attend local planning commission hearings and seek approval of higher density projects. It could act as a housing proponent at project hearings and strive to offset local opposition to development. It could urge communities to fully implement recently adopted housing legislation (discussed below) and to take other steps such as rezoning industrial land to residential use and allowing construction of residential units in commercial areas. If these steps fail, the group could take legal action against cities that refuse to comply with state housing and planning law. Such a group could crystallize diffuse pro-housing interests among young, renting families unable to buy houses and counteract the overwhelming opposition to new development common at planning commission hearings. It could provide the base for developing a consistent housing production policy for the region and probably gain support from many groups that are not now actively engaged in housing advocacy.

Corporate Participation

Most corporations assume that communities have their interests at heart when making planning decisions. While in the past this might

have been true, it may no longer be so. Local elected officials and planners are now greatly influenced by the views and political power of neighborhood groups. These well-organized groups have learned how to shape local land development policy and know how to block undesirable projects. If businesses want communities to help them to continue to grow, they must play a more active and aggressive role in local politics. While most companies, particularly large ones, are reluctant to be involved, they will find it more and more necessary. To help corporations effectively get their views across, a regional housing advocacy organization could help focus business housing concerns and promote their interests.

State Legislation: A California Example

In the 1980 legislative session a number of housing bills were signed into law. The most significant, AB 2853, requires that local governments consider regional housing needs when preparing the housing element of the general plan. Specifically, AB 2853:

- ensures that local governments recognize their responsibility to help meet state housing needs;
- ensures that local governments implement housing elements that move toward the attainment of state housing goals;
- requires that local housing determinations and actions are compatible with state housing goals and regional housing needs; and
- ensures that local governments cooperate with each other to meet regional housing needs.

The bill requires local governments to embrace the concept of regional "fair-share" housing needs. Under the new law, local governments must revise their housing plans to insure that they provide their fair share of housing. On paper the law is very promising; if it is fully implemented, more housing units are likely to be built in the region. But much money will be needed to implement AB 2853, and many communities are ideologically opposed to it as an unwarranted intrusion by the state into local affairs. Regional governments must determine what the region's housing needs are and what each community's fair share is.

A recent ABAG memo estimated that over the next 18 months, it would cost \$348,000 for ABAG staff to prepare the necessary housing estimates. Unfortunately, the State Assembly did not provide funds to implement AB 2853. As the once massive state budget surplus runs out, funds to regional and local governments will be limited. The big question is: Will AB 2853 be implemented? And what will happen if it isn't?

The bill can help to dramatically increase housing production in the Bay Area. Each local government must assess its housing needs and its regional share, state its community housing goals, and set forth a five-year program for meeting its housing needs and objectives. To meet the housing needs of all economic segments, the plan must determine how to administer land-use and development controls, provide regulatory concessions and incentives, and utilize appropriate federal and state financing and subsidy programs.

The progress of California communities toward meeting the requirements of AB 2853 should be closely followed. If communities fail to take appropriate action, a regional housing advocacy group could file law suits as necessary. Also, new follow-up legislation should be prepared to insure that the housing objectives of AB 2853 are being met. More stringent legislation should be prepared in the event that AB 2853 is not implemented.

Conclusion

Over the past 20 years the process of suburban land conversion has changed dramatically. In many areas the supply of land that is easy to develop has dwindled, and developers are trying to develop more sensitive and controversial parcels of land. Environmental concerns have given rise to more vigorous and complex assessments of development proposals, and citizens have become better organized and more strident in their demands for environmental quality. In California Proposition 13 has added another solid argument against new community development; and planners now routinely consider the fiscal impacts of new development before granting approval.

At the same time demographic, migratory, and employment trends point to continuing strong demand for housing in many metropolitan regions of the nation. These conflicting trends guarantee a continued escalation of housing prices and greater difficulty for young families buying their first homes. If high housing costs continue, businesses in many metropolitan areas will find it more difficult to remain competitive in national and international markets. Footloose firms unable to maintain competitiveness will migrate to low-cost areas; those that cannot will grow more slowly.

The most sensible approach is to recast our notions about what good land-use planning is. Development needs to occur at higher densities, and housing needs to be better integrated with commercial and industrial projects. Much of the future demand for housing could be met without the conversion of any unserved, open lands, if the

density of new residential development were increased and declining commercial and industrial areas recycled to residential use.

While planning is very capable of stopping the conversion of open lands, it has not been effective in encouraging development in desirable areas. Unless development and recycling can be facilitated in serviced areas, we are unlikely to solve our regional housing problem. This may be accomplished several ways: First, the fiscal disincentives of new residential development must be eliminated. Second, the ability of "torpedo groups" to stop reasonable housing projects must be curtailed through countervailing housing advocacy groups. Third, impediments to the conversion of older areas to high-density residential use, regardless of their earlier use, must be removed.

Finally, citizens must be shown by way of concrete examples that higher density development is attractive and desirable both personally and for the community. Bringing about these changes is going to be difficult, and presents a major challenge to land-use planners in the 1980s.

“THE SUBURBAN SQUEEZE”: A COMMENT

Robert W. Poole, Jr.

This paper does a good job of describing the ways in which governmental tax and land-use policies have led to a growing housing shortage in the San Francisco Bay Area (and in much of the rest of California). Unfortunately, some of the author's proposed remedies would, if implemented, impose important new costs whose impact the author neglects to consider. Alternative remedies ought to be considered.

Before addressing these issues, however, two additional points deserve comment. First of all, Dowall fails to point out an additional consequence of the restriction of housing supply and the resultant rise in housing prices. That consequence is a rapid growth in government intervention into the housing market, in an attempt to make the restricted supply of housing more “affordable.”

Within the past three years many California cities—including San Francisco, Los Angeles, Berkeley, Santa Maria, and Beverly Hills—have enacted some form of rent control. Counties, too, have enacted rent controls, ranging from comprehensive (Los Angeles County) to mobile-home-parks-only (Santa Barbara County). A second type of intervention is the requirement that developers make available a fraction of the units in a development at below-market prices; this policy is known as “inclusionary zoning.” Both of these policies serve to discourage investment in new housing, thereby further worsening the supply-demand imbalance. They also place the burden of subsidizing lower-priced housing on the shoulders of housing providers, rather than on the taxpayers generally.

Yet another consequence of supply-reduction policies is an increased demand for government-produced or government subsidized housing. State-required housing elements of city and county general plans

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set forth goals for providing housing "affordable" to various lower-income groups. In many cases, the only way such housing can be produced is by extensive government subsidy. Thus, local governments find themselves increasingly being drawn into the role of housing producers—a role in which they have no particular expertise.

A second point in Dowall's analysis deserves comment. At various places the paper criticizes the growth of outlying suburbs. Although decrying the transportation congestion caused by the development of housing in outlying suburbs, Dowall also decries what would seem to be a positive development: the development of increased employment opportunities *within* those suburbs, so that many of their residents could avoid the long commutes. This naturally occurring development would reduce both traffic congestion and air pollution in the entire region. By reducing the demand for commercial/industrial uses in the older urban centers, it would also tend to make some of the land in those centers more attractive for housing development—precisely the result Dowall wants to occur. So it is difficult to understand his characterization of this process as threatening "adverse consequences" for the older urban centers.

Of greatest concern are Dowall's proposed solutions to the "prisoner's dilemma" situation in which cities end up with insufficient housing by focusing their policies on commercial and industrial development. Dowall suggests as remedies such measures as state aid to cities in proportion to the extent of housing construction, state financing of infrastructure and selected services (such as education), tax base sharing on a regional basis, and new service districts in developing areas funded by revenue boards. All but the last of these policies would increase centralization of government and reduce government accountability and responsiveness to local citizens.

Dowall's concern is with the fiscal dilemma caused by Proposition 13. The limitation of property tax revenue to one percent of market value frequently results in new residential construction costing more in terms of the public services it requires than the property tax revenue it generates under the one percent limit. (Commercial and industrial property generally requires less services and generates greater revenues and is consequently preferred.)

An alternative approach is to rethink the way in which public services are financed, reducing or eliminating property tax funding in favor of user fees.¹ Many California cities and counties have increased their reliance on user fees since enactment of Proposition 13 in 1978.

¹See Robert W. Poole, Jr., *Cutting Back City Hall* (New York: Universe Books, 1980).

Park and recreation services and garbage collection are often provided on a fee basis. Water and sewer systems generally charge fees, but often receive a significant amount of their revenue from property taxes. All of these services could be funded entirely from user fees.

But many other services can be shifted at least partly to user fees. Fire protection fees, based on the calculated "fire flow" required by each property (approximately proportional to the fire risk it presents), have been developed in Inglewood and several other California cities. (Such fees provide a direct incentive for the property owner to invest in fire prevention—sprinklers, alarms, fire doors, etc.—because such investments reduce the calculated fire flow and hence the size of the fee.) Private police patrol firms charge fees proportional to the extent and nature of their patrol activities; analogous public-sector fees are certainly conceivable. Many paramedic firms charge fees, rather than being funded by tax money.

With the majority of local public services financed by means of user fees, the fiscal dilemma caused by Proposition 13 becomes a non-issue. Public services become self-financing, whether the users are residential, commercial, or industrial properties. Moreover, when users pay directly for public services, they pay them wherever they use them, regardless of where they happen to live. Thus, the commuters who currently live in low-tax suburbs but enjoy the benefits of the nearby big city would have to start paying directly to enjoy those benefits which are provided in the form of public services.

Dowall also suggests that housing advocacy groups be created to publicize and lobby for supply-increasing policies. Such measures as one-stop permit processing and higher residential densities can, indeed, lead to reductions in housing costs, as HUD studies have shown. Other desirable supply-side measures include removing controls on the use of mobile and manufactured housing and ending restrictions on the conversion of apartments to condominiums; condos generally offer lower-cost home ownership opportunities than single-family housing.

Dowall also argues that cities should amend their zoning laws to "permit" housing to be built on what is now industrially zoned land. But in another place he suggests *rezoning* industrial land to residential. There is an important difference between allowing a type of use and mandating that use. In particular, such rezoning as Dowall suggests would constitute "downzoning," reducing not just the types of allowable uses but the market value of the land itself. While legal opinion is still mixed on whether such downzoning constitutes a "taking" requiring compensation under the Fourth Amendment, such further encroachments on private property rights can only discourage

investors and developers from doing business in those communities taking such steps.

Finally, Dowall places great stock in the idea of state legislation to promote housing production. Unfortunately, his California example—AB2853—appears to be doing very little toward that end. Despite the frequent repetition of words like “ensure” and “require,” the bill does nothing of the sort. In practice, what seems to be happening is that local planning departments are using AB2853 as a charter for expanded government intervention into local housing markets—more public housing, inclusionary zoning, increased land-use control. State legislation *could* be helpful, but it would have to provide explicitly for *deregulating* housing production, rather than further increasing the intervention and regulation which have led to the housing shortage in the first place.