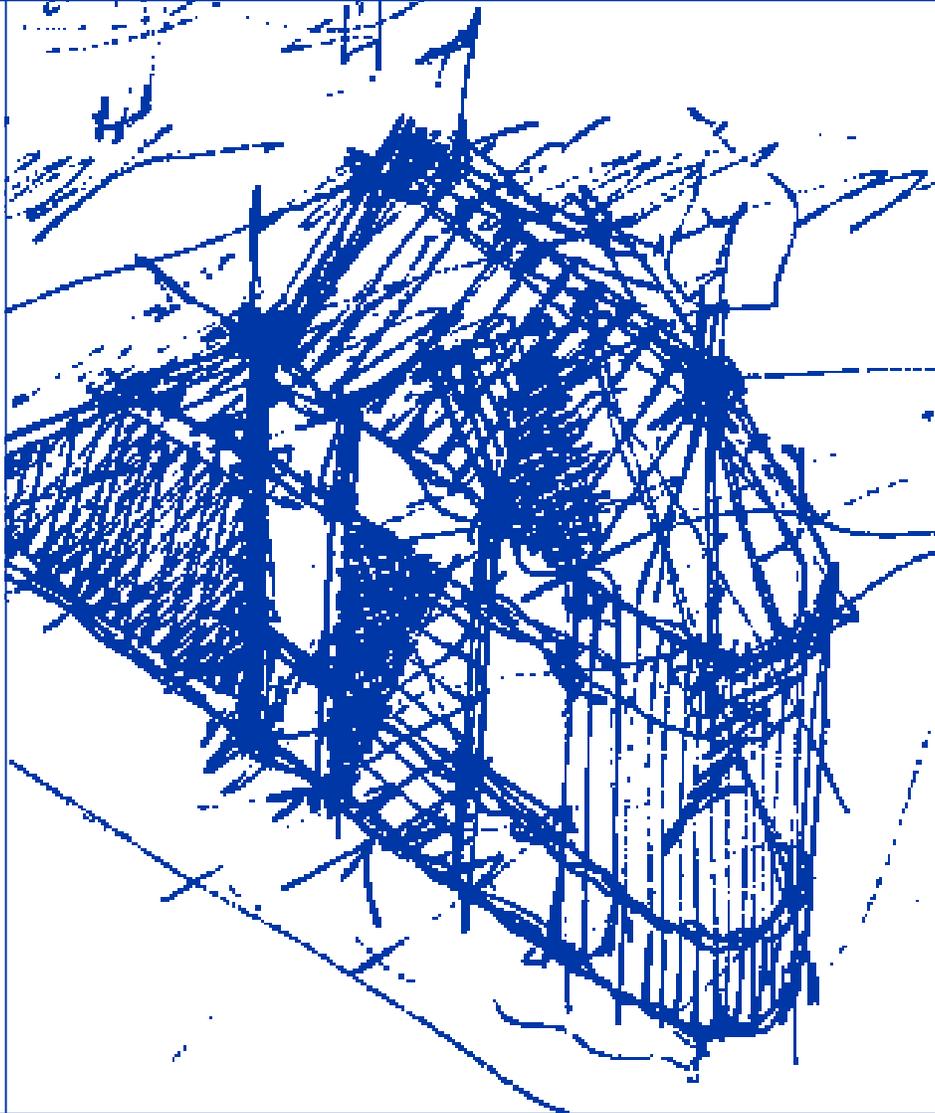


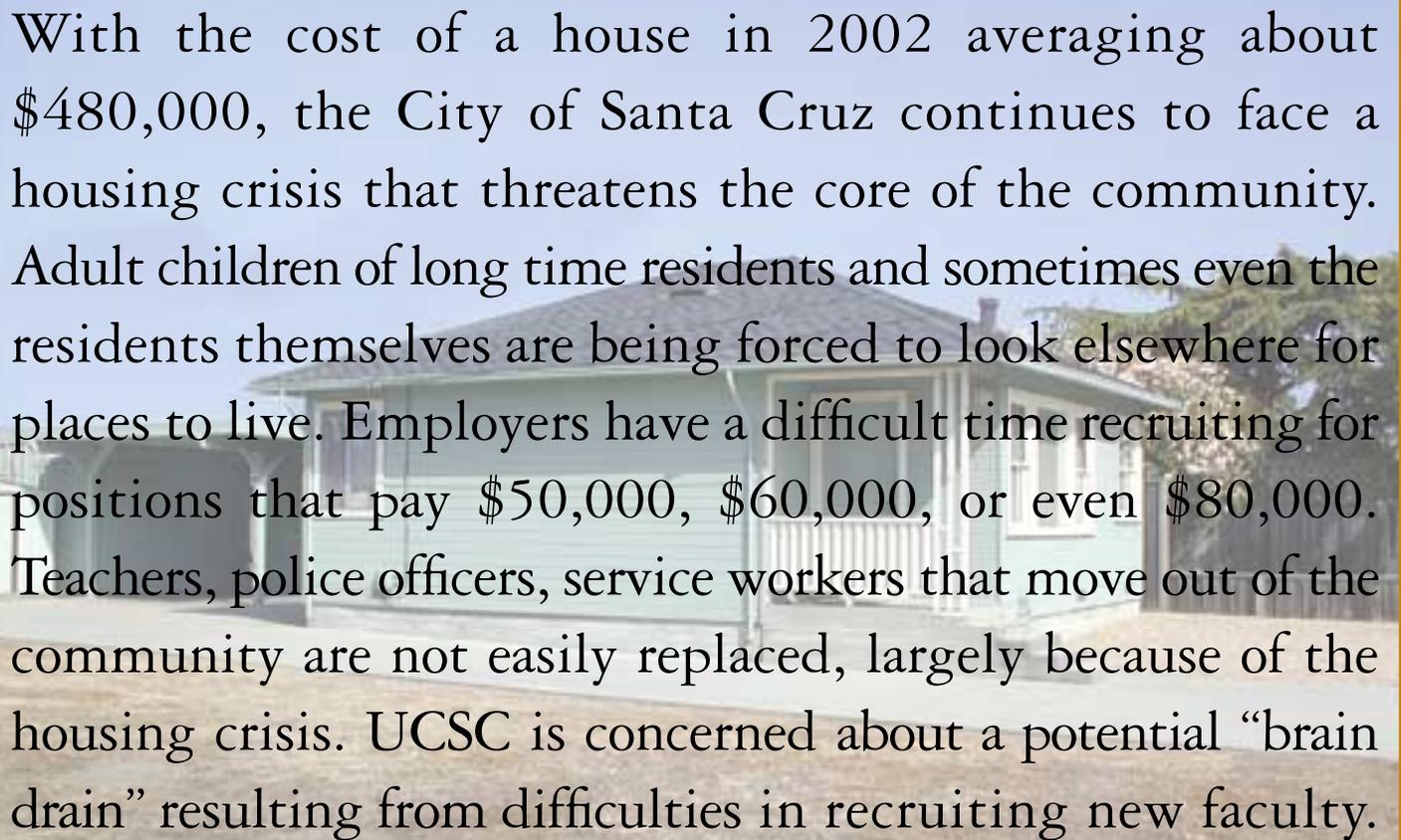
Housing Study Executive Summary



Executive Summary for Expanding Housing Options for the City of Santa Cruz

Housing and Community Development Division
City of Santa Cruz, California
Winter 2002





With the cost of a house in 2002 averaging about \$480,000, the City of Santa Cruz continues to face a housing crisis that threatens the core of the community. Adult children of long time residents and sometimes even the residents themselves are being forced to look elsewhere for places to live. Employers have a difficult time recruiting for positions that pay \$50,000, \$60,000, or even \$80,000. Teachers, police officers, service workers that move out of the community are not easily replaced, largely because of the housing crisis. UCSC is concerned about a potential “brain drain” resulting from difficulties in recruiting new faculty.

This 850 square foot home is listed for \$525,000. May 2002.

In order to fully explore all possible housing options that might help the City address the housing crisis, the City’s Planning Department initiated a Housing Options Feasibility Study. Two assumptions underlie the study: (1) to maintain an economically diverse community, the City of Santa Cruz needs to develop a broader range of housing opportunities; and (2) any new housing should be sensitive to and compatible with the unique character of this community.

The Housing Options Feasibility Study process involved both local and national housing experts. To begin, local for-profit and non-profit developers, architects, property management companies, lenders, City officials, and representatives of other organizations involved with housing were asked to participate as a Technical Advisory Committee in a series of exploratory workshops. Committee members brought specific knowledge of how housing gets built in Santa Cruz and what changes might be needed to help build more. Then, in an all day workshop, outside experts were invited to bring their knowledge of what is happening in other communities to help the Committee explore which options might best work for the City of Santa Cruz.

This report summarizes the result of the work done by the Technical Advisory Committee as a group, with follow-up as needed with individual Committee members to clarify points made in the discussions. Information provided here is not intended to represent the viewpoint of individual mem-

bers nor the consensus of the group. The intent of the study is to identify a range of potential housing options and actions that might be needed to facilitate the development of these options. The results of the study will be used as a tool for the City’s Housing Element Update, which is given the formal charge of providing the City with housing policies and implementation strategies through the year 2007.

SUMMARY OF HOUSING OPTIONS

Three broad categories of housing were identified and are described below. These categories include:

1. Small scale, infill development.
2. Redevelopment or rehabilitation of existing uses.
3. New development.

Ownership options were also examined to see if there might be a unique ownership alternative that might encourage housing development.

1. Small Scale Infill Development

ACCESSORY DWELLING UNITS (ADUs) use surplus space either in or adjacent to a single-family dwelling to create a smaller, ancillary unit. Rents from ADUs can assist elderly, fixed-income homeowners to retain their homes as well as provide first-time buyers with extra income to help with mortgage payments.

The City is currently revising its zoning ordinance to facilitate greater development of ADUs, addressing such issues as parking requirements and design guidelines to minimize privacy impacts on neighbors. Other actions that have been suggested include: (1) streamlining the city processing of development permits and possibly designating a staff person to assist applicants; (2) adjusting development fees to reflect the relative size of an ADU and allow sharing of utilities with the main house when possible; and (3) developing a series of model plans for different types of ADUs to assist homeowners with plan development.



ALLEY UNITS are either detached ADUs or second units on appropriately zoned lots with an entrance and possibly an address on an existing alley. As with ADUs,

there are potential neighborhood impacts with respect to parking and privacy. However, well-designed alley units can help eliminate blight and clear up code compliance issues associated with “back alley” areas. The viability of these units is directly related to adequate lot size, accessibility to municipal utilities, and the condition of the alley.

Suggested actions to encourage development of alley units include: (1) identify and monitor usable alleys to ensure that encroachment does not occur that would eliminate future use for alley units; (2) recognize and accommodate alley units in the current ADU zoning amendment effort; and (3) consider allowing subdivision of appropriately sized parcels with alley access.

CONVERSIONS of existing large, older, residential structures into multi-residential use can help communities preserve historic homes by reconfiguring functionally obsolete residential structures into architecturally efficient spaces while conserving the buildings’ exterior shell. Large Victorian and Queen Anne style buildings located on large lots, which could accommodate additional parking, or those on smaller lots near multi-modal transit options would be ideal candidates.

Actions needed to support conversions of historic properties include: (1) modification of zoning regulations to allow conversions of historic properties in single family neighborhoods; (2) development of a handbook to provide information on how to correctly do conversions; and (3) cooperatively working with lenders to develop a combined City/private sector rehabilitation loan package that could assist owners in converting historic houses.

INFILL DEVELOPMENT takes place on land within built-up urban areas that has been passed over for various reasons during previous development phases and has remained vacant or under-utilized. Infill sites have the advantage of in-place

infrastructure and municipal services, and can help with the revitalization of older neighborhoods. On the down side, undeveloped sites were frequently skipped because of inherent site problems that would have, and still may, result in higher development costs or limited use.

Actions that support infill development include: (1) identification of potential infill sites, exploring potential for combining sites to create more efficient planned unit developments; (2) outreach to owners of blighted “scrape-off” properties, possibly through code compliance activities, to encourage redevelopment; and (3) flexibility in development regulations to facilitate use of difficult sites.

2. Redevelopment or Rehabilitation of Existing Uses

MIXED-USE DEVELOPMENT allows for a balanced blend of residential uses with office, commercial, and, in some cases, light industrial or manufacturing. New mixed-use projects can offer cost savings to developers and owners in the form of shared parking, building operation, maintenance and security. Development in urban cores with near-by transit and shopping hubs provides for more efficient use of land and infrastructure. Commercial or industrial projects combining employer-assisted housing can establish attractive business environments while providing workforce incentives and amenities.

The two primary obstacles for new mixed-use projects are the limited amount of available commercial land and the difficulty in financing projects that include a variety of uses. Actions needed to support mixed-use development would be



revision of current zoning ordinances to: (1) allow housing densities at a level required to make mixed-use projects financially feasible; (2) review and revise commercial and industrial zoning requirements to encourage mixed-use redevelopment; (3) encourage more effective use of tools such as shared parking to reduce parking requirements; (4) when possible, adjust regulations to be sensitive to lending institutions’ funding requirements as well as work with existing redevelopment tools and financing to promote project development; and (5) pro-actively work with commercial remodel/expansion/new construction applicants to create opportunities.

MIXED-USE REDEVELOPMENT opportunities exist in older, inefficient strip malls, underutilized parking lots, functionally obsolete supermarkets, and decaying industrial sites. Redeveloping existing single or mixed-use projects may offer opportunities to mitigate incompatible uses that evolved over time as well as create new “village nodes” to serve neighborhoods. Use of existing sites and structures may also result in lower project costs and thus greater affordability.

In addition to the actions suggested for mixed use development, actions that could support mixed-use redevelopment include: (1) conduct an urban design study of commercial corridors to identify opportunities and, when possible, facilitate redevelopment; and (2) consider pursuing a mixed-use redevelopment project with an emphasis on housing within the downtown as identified in the Front/Cedar Street Urban Design Study.

CORRIDOR DEVELOPMENT of housing focuses higher densities along boulevards or transit corridors. The increased density associated with multi-unit projects may be unacceptable to the immediate neighborhood and larger community in general. Solutions to possible livability issues within the development itself (circulation, traffic noise), as well as mitigation of resultant impacts on surrounding roads and neighborhoods must be considered.



Most recommended actions that apply to mixed use development can be applied to Corridor Development as well. Additional actions needed to foster development of housing in transit corridors may include: (1) initiation of urban design studies of arterials within the City to identify appropriate areas for housing, (could be done in conjunction with studies for mixed use redevelopment); and (2) development of regulations that encourage housing along corridors.

3. New Development

HIGH-DENSITY HOUSING provides the most effective opportunity to increase the City’s affordable housing stock while continuing preservation of open space. High-density housing generally offers the lowest price for comparable housing. A combination of lower land costs per dwelling unit and smaller average unit size off sets the somewhat higher

construction costs of higher density housing. Increased density in and around employment centers can reduce traffic impacts by providing opportunities for residents to live near their jobs. Utilization of existing infrastructure (roads, municipal utilities and services) also provides a net gain, assuming existing capacity is adequate to support the increase in units and population. Opposition to high-density housing may be based on concerns for out-of-scale buildings, increased traffic congestion, and impact on surrounding property values.



Actions needed to allow for the development of high-density housing include: (1) community education of how high-density housing can enhance rather than detract from a neighborhood and community; (2) selective rezoning of land to allow greater density and modification of regulations that might discourage high-density development; (3) adjustment of development fees to reflect building area rather than number of units; and (4) zoning overlays for intensification of density allowing duplexes that might be appropriate at corner lots or other parcels in lower density residential neighborhoods.

NEW MULTI-FAMILY UNITS, in planned unit developments with town homes or condominiums, help fulfill a significant demand for housing units, and can serve a combination of high and low-end ownership markets. New construction can be designed to more efficiently meet current community needs, provided that opportunity sites of sufficient size can be identified or multiple, adjacent parcels can be consolidated.

Multi-family rental housing is currently very difficult to develop. Recently constructed projects and proposed developments in the City of Santa Cruz have either required subsidies or special considerations to make the projects viable. To develop affordable housing, identification of new funding sources is needed as well as exploration of public/private partnerships.

NEW SINGLE-FAMILY UNITS remain desirable for developers and consumers alike although they utilize a disproportionate share of the community’s scarce land resources. A single-family home on half-acre lot uses 12.5 times as much land per household as an apartment complex of 25 units per acre. Given diminishing stocks of available land, single-family units are clearly a less favorable option than projects that yield higher densities. Therefore, no actions to facilitate development have been identified in this report.

HOUSING SUITABILITY

Although most housing types have enough flexibility to serve multiple markets, specific housing options may lend themselves more readily to specific markets. The following summarizes optimum housing options for different user groups.

Seniors: Smaller units requiring little maintenance that are located near services are ideal. Mixed-use housing is very favorable, with conversion of large homes or establishment of ADUs appealing to those seniors wishing to remain in their own homes or neighborhood.

Students: Although students are attracted to cheaper rents that result from sharing larger homes, it is desirable from a community standpoint to encourage students to live in smaller units to free up these larger homes for families. Mixed-use housing, especially in the downtown, or transit corridor can provide an active and attractive environment for many students. The smaller units created by ADUs or conversions are also appropriate.



Families: Creating larger units needed for family housing in a built-out city like Santa Cruz is difficult. With the shortage of vacant land, significant development of traditional single-family homes is not likely. Although infill housing may be one source for single-family homes, costs are typically high. If projections developed during the Housing Element Update process indicate a high need for family housing, an effort to encourage multi-family housing development to include larger units may be necessary.

First Time Home Buyers: Homes with Accessory Dwelling Units (ADUs) as well as condominiums are attractive for this group.

Live/Work (living quarters and work space at the same location): Mixed-use developments and housing developed along commercial corridors can provide excellent opportunities for Live/Work.

HOUSING OWNERSHIP OPTIONS

In evaluating the different home ownership options, it was clear that ownership itself does not effectually encourage or discourage development of new housing. The following summarizes the types of ownership options.

CO-HOUSING is a group housing arrangement that includes a combination of shared and private living spaces. Co-housing projects vary greatly in size, ownership structure and design in order to meet the desires of the people and families who start

them. The ownership structure can include privately owned condominiums, limited-equity cooperatives, and rental units owned by nonprofit organizations.

HOUSING COOPERATIVES are set up as corporations that are owned by members or shareholders who receive services from the corporation in the form of housing. Each member owns a share in the corporation, which entitles the household to a unit of housing. Cooperatives are typically financed through a blanket mortgage that covers the entire property. Limited equity housing cooperatives that restrict the resale of shares can be used to provide affordable housing and ownership opportunities for low and moderate income households.



COMMUNITY LAND AND HOUSING TRUSTS are generally configured as private non-profit corporations created to acquire and hold land while conveying the long-term use of the land to individuals, cooperatives or other entities. Leaseholders own their homes and other improvements on the land, offering them security, an opportunity to transfer the lease to their heirs, and full rights of privacy. Recently trusts have been set up to help create and preserve affordable housing. Although trusts generally promote home ownership, they may also develop and preserve needed rental housing. State housing financing agencies are increasingly interested in making financing available for housing on trust land, and several state legislatures have acted to appropriate special funds to finance acquisitions by land trusts.

EVALUATION OF HOUSING TYPES

The identified housing options were evaluated by three variables, including: What options are most cost effective to develop? What options can be implemented with relative ease? And, what options might provide the greatest number of units? The following is a summary of the results.

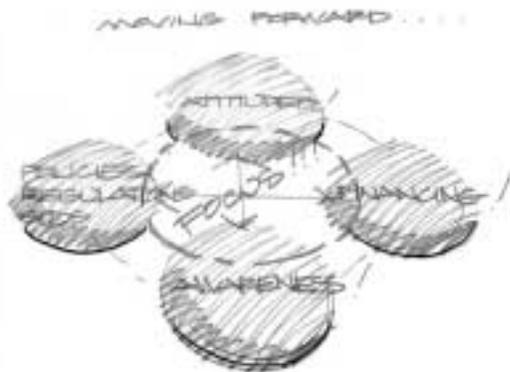


Cost Effectiveness: Housing types that take advantage of existing development such as ADUs, including alley units, conversions, and development or redevelopment of vacant/ underutilized sites are considered to be more cost effective because they can utilize existing infrastructure and, in some cases, buildings. High density housing was also considered to be cost effective because of the more efficient use of Santa Cruz’s most precious commodity – land. Infill and new, traditional housing developments were considered to be the least cost effective.

Level of Difficulty: (This refers primarily to pre-development approvals and/or financing.) In light of what is perceived as an exceptionally rigorous approval process in the City of Santa Cruz, none of the housing types were seen as being easy to develop. New traditional housing (single or multi-family developments) was viewed as being only moderately difficult to develop, with development of high density housing viewed as being the most problematic, primarily due to presumed community preferences for lower density development as well as the potential need for infrastructure improvements.

Number of Units: Development of high density housing followed by intensification of housing along corridors provides the best opportunities to significantly increase the housing stock in Santa Cruz. Small-scale development options such as ADUs or infill development were seen as having the lowest capacity to contribute significantly to an increase in the quantity of housing stock.

Evaluation Summary: The evaluation described above was cursory only and will be used to suggest issues to be looked at in more detail during the Housing Element Update process and, as needed, through other studies conducted by the Planning Department. However, it is clear from even this nominal evaluation plus the more in depth discussions that occurred between Committee members, that no one housing option can solve the City’s housing crisis. Therefore, the City of Santa Cruz needs to continue exploring, and encouraging, a range of viable housing development types.



WHERE DO WE GO FROM HERE?

Throughout the Technical Advisory Committee workshop series, four key items continued to surface as critical actions needed for the success of future housing development in the City of Santa Cruz.

1. The community needs to be open to change, especially when considering the possibility of higher density housing.

"The Santa Cruz mind-set perceives Santa Cruz as a town, not an urban city with urban densities. To allow for higher densities, the community would need to soften a 20 year pattern of preference." Charlie Eadie, UCSC Campus and Community Planning, (and former City Planner)

Change in the Santa Cruz community is inevitable. Without creating more housing, economics rather than the people will dictate who can live in Santa Cruz. When housing is a scarce commodity, it goes to the highest bidder. If residents of Santa Cruz hope to have their children be able to afford to live here,



more housing is needed. The general consensus of the Committee was that to allow for an economically diverse community, increased densities in appropriate areas, developed without heavy reliance on cars, might be a viable approach to effectively increase the housing stock with the least impact on the quality of life in Santa Cruz.

However, given the strength of current community views, many Committee members felt that to make higher density housing possible, the community needs to be shown that sensitively designed higher density housing can enhance rather than detract from a community. The 2002 Housing Element Update process will provide an excellent opportunity to help in this education effort. In addition, other studies might be conducted to provide residents with accurate information regarding issues such as potential parking impacts and infrastructure issues.

2. The current zoning regulations and the City’s development fees are considered to be impediments to developing housing and need to be revised.

"Zoning in Santa Cruz is suburban 1960’s. The General Plan is more idealistic, but from a 1970’s viewpoint." Mark Primack, Mark Primack Architect, (and former Chair of the Zoning Board)

"There are winners and losers. There are disincentives for building multi-family residential and rewards for building large units. Water and other fees are inequitable." Matthew Thompson, Thacher & Thompson Architects

Although the City’s Planning Department has indicated that planning fees are generally in line with other jurisdictions, the Committee generally felt that adjustments were needed. Since the initiation of this study, one major fee issue has already

been addressed. Design Permit fees for multi-family residential uses are now calculated on a square footage basis, rather than a per unit basis. Other planning and building fees as well as those for sewer, water, and recreation may still be considered high and may warrant review by those departments.

Committee members also noted that a number of zoning requirements might be reviewed and possibly revised in order to encourage housing development. Items identified by individual Committee members include:

- Lot coverage and minimum lot size requirements;
- Building height and density requirements in key development locations such as the downtown and transit corridors;
- Affordable housing inclusionary zoning requirements; and
- Use of “Floor Area Ratio” rather than, or in conjunction with, the number of units to determine densities, open space requirements, and parking calculations.

Example of mixed use development with housing above and retail below, from presentation by Bruce Race.



3. Greater speed and consistency is needed in the approvals process in order to attract development.

“The single greatest cost to the developer is entitlement risk.”
 Jeff Major, Barry Swenson Builders

Pre-development costs and risk factors play a major role in determining whether a housing project is even initiated. Developers need to have some assurance that if they invest two years worth of design fees, endure the expense of purchasing and holding a development site, and, with Planning Department staff support, develop quality plans under existing zoning regulations, they will have a reasonable chance of building an economically feasible project in a timely manor. Unfortunately this does not always happen. In fact, the general consensus of developers on the Technical Advisory Committee is that consistency in project approval is a major problem in Santa Cruz.

Despite the “finger pointing” that might occur regarding this issue, it appears that improvement is needed at all levels of the process – including consistency shown by appointed and elected officials as well as speed of processing by the planning staff. A key aspect of the success of the Downtown Recovery was having clear guidelines and relative certainty of approval. The concept worked then and could be applied to

help achieve housing goals. Improving the development approvals process is an issue that needs to be discussed during the Housing Element Update process.

Potential improvements that have been suggested for the Planning Department include: (1) reduce the number of discretionary approvals by recognizing some levels of multi-family development as principally-permitted uses making them subject to an administratively approved Design Permit; (2) encourage planning staff to use the newly created “infill development” CEQA exemption when possible; (3) develop urban design standards that would give a more secure framework for developers; (4) improve processing time by increasing use of developer/staff working meetings to iron out key issues during the project development stage; and (5) for major projects, provide an opportunity for developers to discuss policy/community issues with the Planning Commission during the pre-development phase.

4. Future development of “affordable” housing will increasingly require partnerships between the public and private sectors of the community.

“You can’t make the creation of affordable housing the sole responsibility of for-profit developers. It just won’t pencil out. The City and developers – non-profit and for-profit – need to be partners to make affordable housing happen.”
 Maynard Manson, Wave Crest Development

Because the community correctly feels that every person is entitled to have decent housing, we sometimes lose sight of the fact that for private developers and management companies, building and operating rental housing is a business. Developers on the Committee pointed out that, like other businesses, development costs and revenues must be balanced in order to make a project viable. In a hypothetical project, a one bedroom apartment with one parking space might cost about \$120,000 to build. The amount needed to service the debt used to finance construction of this hypothetical apartment unit plus pay operating expenses and reserve accounts could reasonably be about \$1,680 per month. (Please note this amount does not include developer fees, which both for- and non-profit housing developers typically factor into costs.)

New housing at Chestnut and Laurel Streets received some City assistance.



In 2002 in the City of Santa Cruz, an affordable rent for a low (60% of Median) or moderate (120% Median) income two person household is calculated to be \$828 or \$1656 respectively. When

affordable rents are lower than costs, the difference between what it costs to build and operate a unit at an affordable rent is the cost of supplying affordable housing. For example, in this hypothetical case, a low income unit would need *at least* a monthly subsidy of about \$860 or a one time, up front subsidy of about \$85,000 per one bedroom unit.

In the past, the city has expected the developer to bear that cost. The result has been that little or no rental housing has been developed. Committee member Craig Rowell pointed out that “in the last 20 years only 82 units, or about 4 units per year, of regular apartment rental housing have been built.” (This excludes Single Room Occupancy and Investominium units). To

encourage the current development proposals at Shaffer Road and 1010 Pacific, as well as the complex under construction at Laurel and Chestnut Streets, special agreements and financial participation by the City have been needed – without which these projects could not be built.

In order to develop future housing, affordable or otherwise, the city must work with the developers in public/private partnerships. Although limited, the City has both redevelopment and federal grant funds that could be available for this purpose. The cost of developing affordable housing must be shared, or no housing will be built at all.



ILLUSTRATION BY ROBERT ODERMATT

Illustration from a study of underutilized sites in downtown Santa Cruz, showing a potential for a mixed use development with 300 housing units built on existing parking lots along Cedar Street.

Note of Appreciation

Our thanks goes to the following Technical Advisory Committee Members, Housing Experts, and Advisors that gave so generously of their time and experience.

Bill Leland	Dave McClure	Gene Arner	Kaitilin Gaffney	Mary James	Paul Brindell
Ceil Cirillo	Dianna Ligon	Gorden Pusser	Ken Cole	Matthew Thompson	Rod Quartararo
Charles Eadie	Don Burke	Jane Barr	Mari Tustin	Maureen Smith	Rose Marie McNair
Chip	Elise Levinson	Jennifer Bragar	Mark Primack	Maynard Manson	Roy Nelson
Craig Rowell	Elizabeth Vogel	Jessie Nickell	Martin Bernal	Nora Hochman	Tony Hill
Bruce Race, <i>RACESTUDIOS</i>		Joel Rubenzahl, <i>Community Economics</i>		Paul DeSantis, <i>HomesUSA</i>	
Daniel Iacofano, Paul Tuttle, & Clark Williams, <i>M.I.G. Inc.</i>		Kathe Head, <i>Kaiser Marston Associates</i>		Patrick Devine, <i>Patrick Devine Design</i>	
David Latina, <i>Mercy Housing CA</i>		Kathryn McCamant, <i>CoHousing Co.</i>		Robert Odermatt, <i>The Odermatt Group</i>	
		Matt Taecker, <i>Calthorpe Associates</i>		Robert Odland, <i>Odland Consulting</i>	
		Michael Pyatok, <i>Pyatok Associates</i>			

Sketches used in this brochure were created by M.I.G. Inc. as part of the meeting record during committee seminar and workshops.

