

# Short Term Vacation Rental Subcommittee

## Summary of Housing Planning in the City of Santa Cruz

### February 3, 2017

During recent discussions there have been some references to the City's 2015-2023 Housing Element and General Plan 2030. It seems appropriate to provide some basic information as to the relevance of the Housing Element as it relates to Short Term Vacation Rentals. Because the subcommittee meeting time is so short, here is a VERY basic summary of various aspects of housing in the City.

#### **Housing Element**

The Housing Element is one of the required 'elements' of the General Plan. State law requires that jurisdictions update this element every eight years. The City's Housing Element 2015-2023 was approved in March 2016 by the City Council. To call the Housing Element a "plan" for development is inaccurate. Like the General Plan, the Housing Element is a guide for future development. The State requires a Housing Element to address and analyze local housing issues such as: affordability, number of housing units constructed, vacant and underutilized land, housing policies and impediments, pending projects, and City housing programs.

A principle purpose of the Housing Element is to demonstrate that a City or County has enough available land to accommodate its "fair share" of future anticipated housing. The "fair share" allocation for this region is completed by our regional Council of Governments, AMBAG (Association of Monterey Bay Area Governments), with input from all the jurisdictions of the region. The "fair share" allocation is called the Regional Housing Needs Assessment (RHNA) and is based on local and state projections for population growth. Many people mistake this "fair share" allocation as a mandate for the City to actually construct the assigned number of units. The AMBAG fair share allocation is not a mandate to construct housing. The purpose of the allocation process is to ensure that there is enough land ZONED to accommodate the housing. If a jurisdiction does not have enough land appropriately zoned to accommodate its fair share, then certain State grant funds may be withheld from the jurisdiction.

The City's Housing Element 2015-2023 was certified by the State in 2016, which indicated the City has adequate land zoned to accommodate the fair share allocation for the 8-year life of the Housing Element. The RHNA process completed by AMBAG indicated that the City of Santa Cruz would need to provide enough zoned land to accommodate 747 housing units over the life of the Housing Element from 2015 - 2023. This is not a mandate to construct 747 housing units, nor is it a goal. The City of Santa Cruz meets the RHNA numbers as the General Plan Land Use Plan and zoning have more than enough land designated or zoned to accommodate the 747 units.

## **Housing Production is Market Driven**

The vast majority of the housing constructed in the City is privately funded. The City has less control over the production of housing than most people realize. The City can influence production and maintenance of existing housing through policies. Policies related to housing production include reducing fees; protecting existing lands zoned for housing; up-zoning more land to accommodate and encourage more housing development; simplifying the development review process; and removing other regulations that impede housing development. The Short Term Vacation Rental discussion falls into the policy category as ONE way the City can influence long-term housing retention. As discussed at the past Subcommittee meetings, STVR's are a contributing factor (albeit be a small percentage at this time) to reducing the long-term rental housing supply.

## **Affordable Housing**

It is important to be clear on what is meant by the term “affordable housing”. Most of the time, when the City staff speaks about affordable housing, we mean subsidized housing: money (most often public funds) is used to buy down the difference between a market-rate rental or for-sale unit to a level that is defined by the State based on the income level of the renter or buyer. Categories include Extremely Low Income, Very Low Income, Low Income, and Moderate Income. It can be argued that in Santa Cruz, only subsidized housing is truly affordable. However, more recent conversations about affordable housing throughout the country, State, and in the City include both the objectives of increasing the supply of housing and building smaller units (often referred to as “affordable by design”). Smaller permanent units can lead to *more* affordable housing on a comparative basis to conventionally sized housing - even if they remain market-rate rental or for-sale units. They are more energy efficient, require less land, and are less expensive to construct than larger housing units and therefore rent or sell for less.

“Workforce housing” is a generic undefined term often applied to housing for any person with a decent-wage job who does not qualify for subsidized housing, but who also may not be able to afford full market-rate rents or unit sale prices. Affordable-by-design units may be a form of workforce housing and may make the difference between staying in Santa Cruz and relocating to find a lower cost of living. Accessory dwelling units fall into this category as affordable by design. While renters may still find these expensive to rent, they are still less expensive than a typical house in Santa Cruz. Most of the more recent projects being submitted to the City are trending to smaller-sized units than were constructed in the City ten or more years ago.

When financially possible, the City, through the Economic Development Department, contributes designated available affordable housing funds to a development project that is a partnership with an affordable housing developer.

There are differing philosophical perspectives about how much public funding should be contributed to subsidize housing enough to qualify as defined affordable housing based on income. Santa Cruz has historically had a strong desire to subsidize housing when funds are available to preserve the ability for lower income individuals and families to remain in the City. With the dissolution of Redevelopment Agencies in the State in 2012, a major source of funding for affordable housing was eliminated. This funding has not been replaced and as a result, the City has not been able to contribute to many affordable development projects in the past couple of years.

There are many groups actively working on the funding issue on a countywide basis and we should expect to hear more about ideas to create a more permanent affordable housing funding source in 2017.

### **General Plan**

The City General Plan 2030, adopted in 2012, includes environmental analysis that evaluated impacts of 3,350 additional units, if these units were to be constructed over the life of the General Plan. (The General Plan is typically updated about every 20 years. Housing Elements are required by the State to be updated more frequently than the rest of the General Plan). While the General Plan environmental analysis evaluated the impacts of about 3,350 housing units over the life of the plan, this was not a projection of houses to be built, or a goal. The 3,350 units was a reasonable assumption as to what *could* be developed over the life of the plan based on the land use designations, the associated zoning, and making some assumptions about the rate of anticipated development. The Environmental Impact Report (EIR) is not an estimate, projection, or goal for units to be built. The EIR purpose is simply to determine what *impacts* might be present *if* the 3,350 units were to all be constructed before 2030. To reach the useful life of the EIR analysis, this would mean the City would need to average construction with Final inspection approval of 335 units per year over the next 13 years. From the last STVR subcommittee meeting, it was noted that about 995 housing units are approved or submitted in the pipeline. It will take several years for all of these units to be available to buy or rent since most of these housing units are not under construction.

At the January 14<sup>th</sup> meeting, a graph was shown of the number of housing units that received final inspection approval per year over the past 10 years (1,063 units). The production of housing over the next few years is expected to increase due to the already approved projects in the queue. There are many reasons why approved development projects do not begin construction immediately, but the most common impediment is lending. With the financial crisis and national recession of 2008-2010, additional structure has been put in place to ensure that banks do not over extend themselves with bad loans. Lack of financing is the primary reason for construction delays between City approval and construction.

There is no such thing as a BUILT-OUT City. While you may hear the phrase, “the City is built out or 97 to 98% built out,” this just means that there is not enough vacant land or adequately zoned land to accommodate the actual demand on the City for additional housing. The 2010 census indicated Santa Cruz had a population density of 3,787 people per square mile. For comparison, the City of San Luis Obispo is 3,500 people/square mile and the City of Manila, Philippines, has an estimated population density of 107,562 people per square mile. As cities grow, they become more dense, with smaller lots and more multi-family housing. This is completely consistent with Measure O, the 1979 ballot measure which established the City’s Greenbelt and required a 15% affordable housing (Low and Moderate Income) component for new development. The inclusionary requirement is still valid today, but case law (the California Building Association v. City of San Jose) has now made it illegal for jurisdictions to require inclusionary housing as a condition to approve new *rental* units.

### **Current Housing Planning Efforts**

The housing development capacity of the City includes downtown, the corridors, and the vacant and underutilized properties throughout the City. There are two active City Planning Department efforts underway to increase opportunities for housing. The Corridor Rezoning is intended to include appropriate zoning development standards for housing and mixed-use opportunity areas approved by the General Plan 2030. The corridors of Mission, Ocean, Water and Soquel were determined to provide the best opportunities to accommodate mixed-use (commercial and residential) development. The development standards are in the process of being reviewed by the Planning Commission with the objective of providing good design to define how best to reduce impacts to the nearby neighborhoods, while providing positive mixed use projects. Future units that might be developed under the new zoning standards have already been analyzed as part of the 3,350 units considered with the General Plan 2030 EIR. The design standards are focused on what the development will look like and the shape and associated improvements required to be included with projects.

Interested subcommittee members can get more corridor information on the following website:

<http://www.santacruzcorridors.com/>

The second planning effort under consideration is for portions of the downtown. The Downtown Recovery Plan (DRP) was adopted in 1991 after the 1989 Loma Prieta earthquake and it has served as the guiding document for downtown redevelopment. The proposed amendments include increasing heights along Pacific Avenue between Cathcart Street and Laurel Street, and along Front Street between Soquel Avenue and Laurel Street.

Upper Pacific Avenue was the focus of the downtown post-earthquake recovery and now that the upper Pacific has largely been redeveloped, it is appropriate for the

City to look for opportunities in the Central Business District to accommodate more housing. This alleviates impacts to neighborhoods outside of the downtown core. There is potential for an addition of several hundred units in the downtown core that will be analyzed with an EIR in the coming months. For more information on this planning work, which was initiated in 2014, please visit the following website:  
<http://www.cityofsantacruz.com/departments/downtown-recovery-plan-amendments>