



Economic Effects of County Growth Policies

CREATING
OUR LEGACY.
SUSTAINING
OUR RESOURCES.

April 25, 2012
Community Open House

Funded by a grant from the Strategic Growth Council





Welcome

- **State grant for technical studies**
- **Why economics?**
- **Tonight's agenda**





Rural Growth Concerns

- **Longer commute distances:**
 - GHG emissions
 - Increased road maintenance costs
- **Increased fire & sheriff protection costs**
- **Land use conflicts w/ agriculture**
- **Groundwater competition w/ agriculture**





County Growth Policies

- **Land Use Element – Strategic Growth Principles**
 - Community-focused growth
 - Efficient development
- **Conservation and Open Space Element**





State Mandates

- ***AB 32 – Sets GHG reduction targets***
 - County EnergyWise Plan
- ***SB 375 – Links transportation and land use***
 - Sustainable Communities Strategy





Community-focused Growth

- **Strategic Growth Principle # 2:**
Strengthen and direct development toward existing and strategically planned communities
 - Limiting rural growth
 - Community development





Limit Rural Growth

- **Strategic Growth Implementation**
 - Rural growth management
- **Paso Robles Groundwater Basin RCS Recommendations**
 - Limit non-agricultural development in the rural areas of the basin





Community Development

- **Infrastructure Planning**
 - Board infrastructure policy
 - Complete Communities Survey
 - 5-Year Countywide CIP
 - Public facility financing plans in community plans





Community Development

- **Land Use Planning**
 - Infill Development Standards
 - Remove barriers to compact development
 - Community plans
 - Policies and standards for compatible development





Objective

If the County decides to place limitations on growth in rural areas:

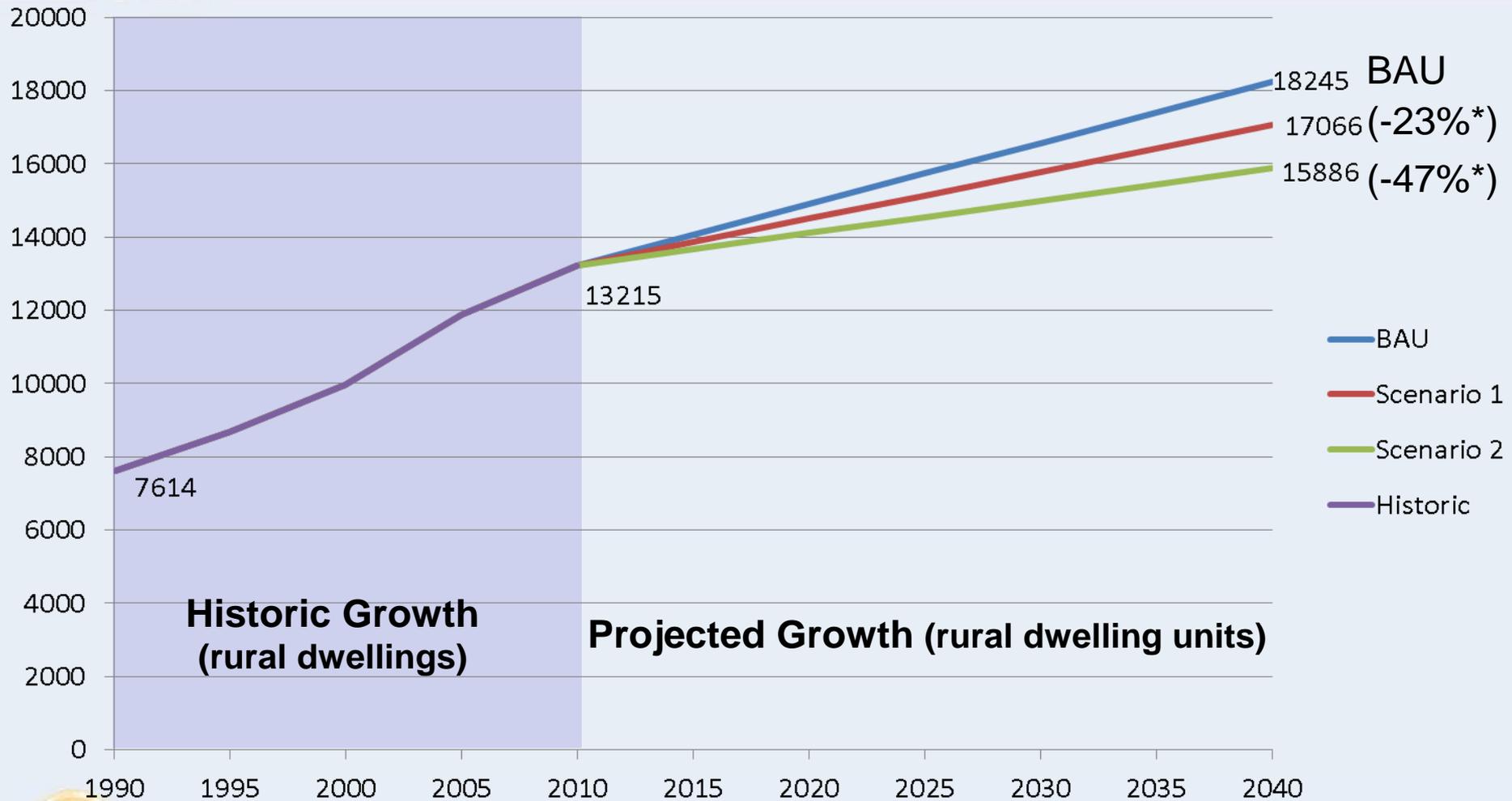
1. How much growth will shift to urban areas?
2. What will be the effects on property values and the economy?





Rural Growth Scenarios

Countywide

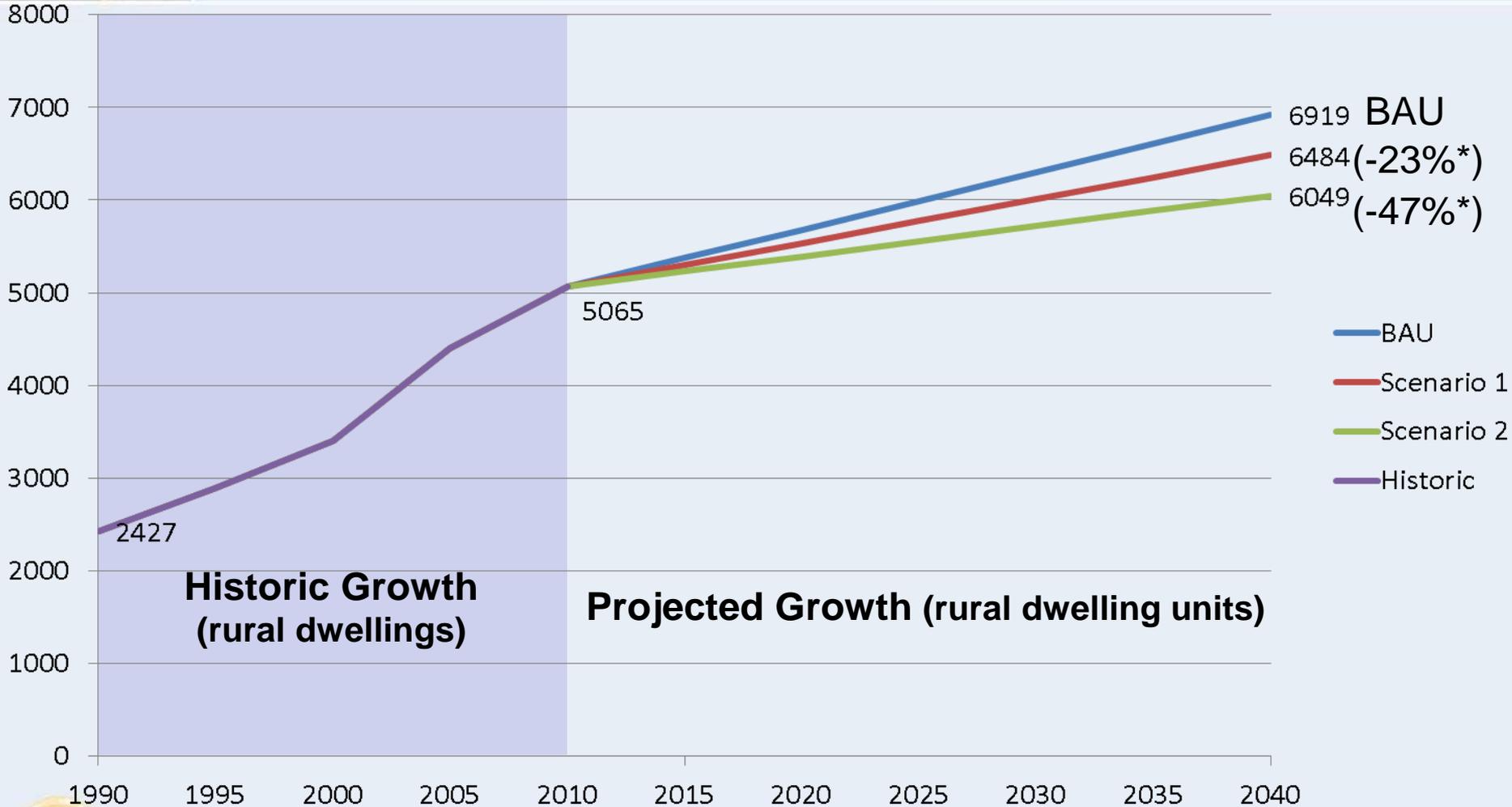


*Reduction in new rural dwellings from BAU



Rural Growth Scenarios

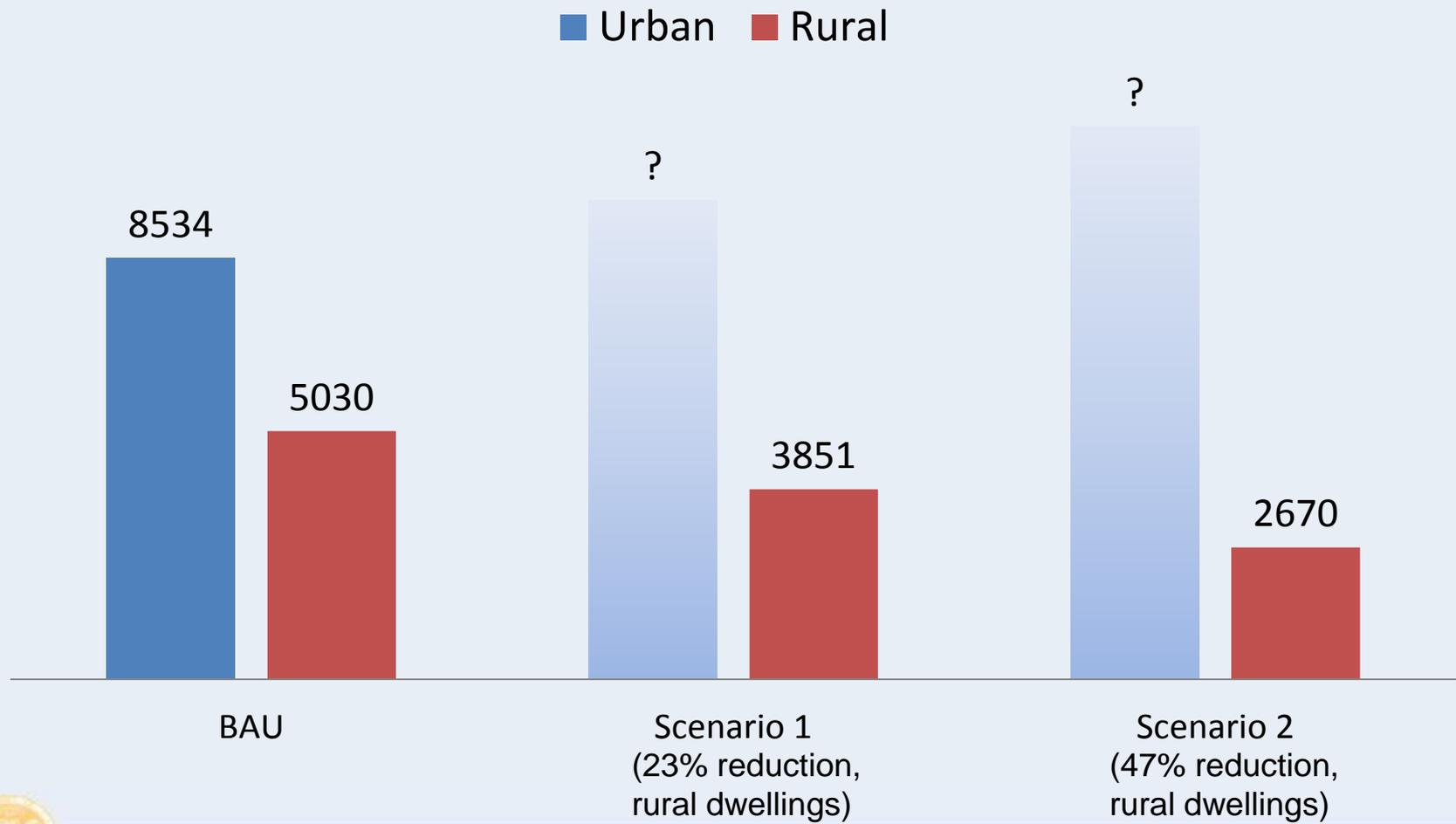
Paso Robles Groundwater Basin



*Reduction in new rural dwellings from BAU



Question #1





Economic Effects of Strategic Growth Policies in San Luis Obispo County

April 25th, 2012

ECONorthwest
ECONOMICS • FINANCE • PLANNING



I. Overview

Perceived problem

Potential solution

Questions for this study



How to think about the questions

II. Framework: causes and effects

III. Trends: What has happened?

Growth estimates

- **IV. Without new policy**
- **V. With new policy**
 - **VI. Shifts to other areas of the County)**

Economic impacts (later)



II. Framework

How to think about the questions



Estimating policy effects on housing

Two futures: without new policy and with

- Both share similar “causes”
 - Demand
 - Supply
 - Public policy
- The difference: the proposed change to rural residential policy



Simplifying: 6 P's of housing demand

- Population growth and demographic changes
- Purchasing power
- Preferences for housing
- Prices and costs of housing
- Prices of housing substitutes
- Public policy



Difficulties and limitations

- Base-case future uncertain
- Multiple housing products
- Lots of consumer choices
- Isolating policy effects
- But, long-run, so approximations okay

Thus

- Simulations based on assumptions...
- Not predictions based on unknowable facts



Observations on the policy scenarios

Already a policy to limit building permits

New policy scenarios:

- More limiting
- More likely to have impact
- More directed: rural residential
- Will affect the rate / timing of growth; not the residential development potential of rural land



The steps, in summary

Base-case residential growth in County (DUs)

Reductions in DUs in Rural areas from cap

Reductions in DUs in all County from cap

Economic impacts of the estimated reduction



III. Recent Housing Trends

How people have made housing choices in the past: a good place to start thinking about what they will do in the future



Housing built fluctuates in the County

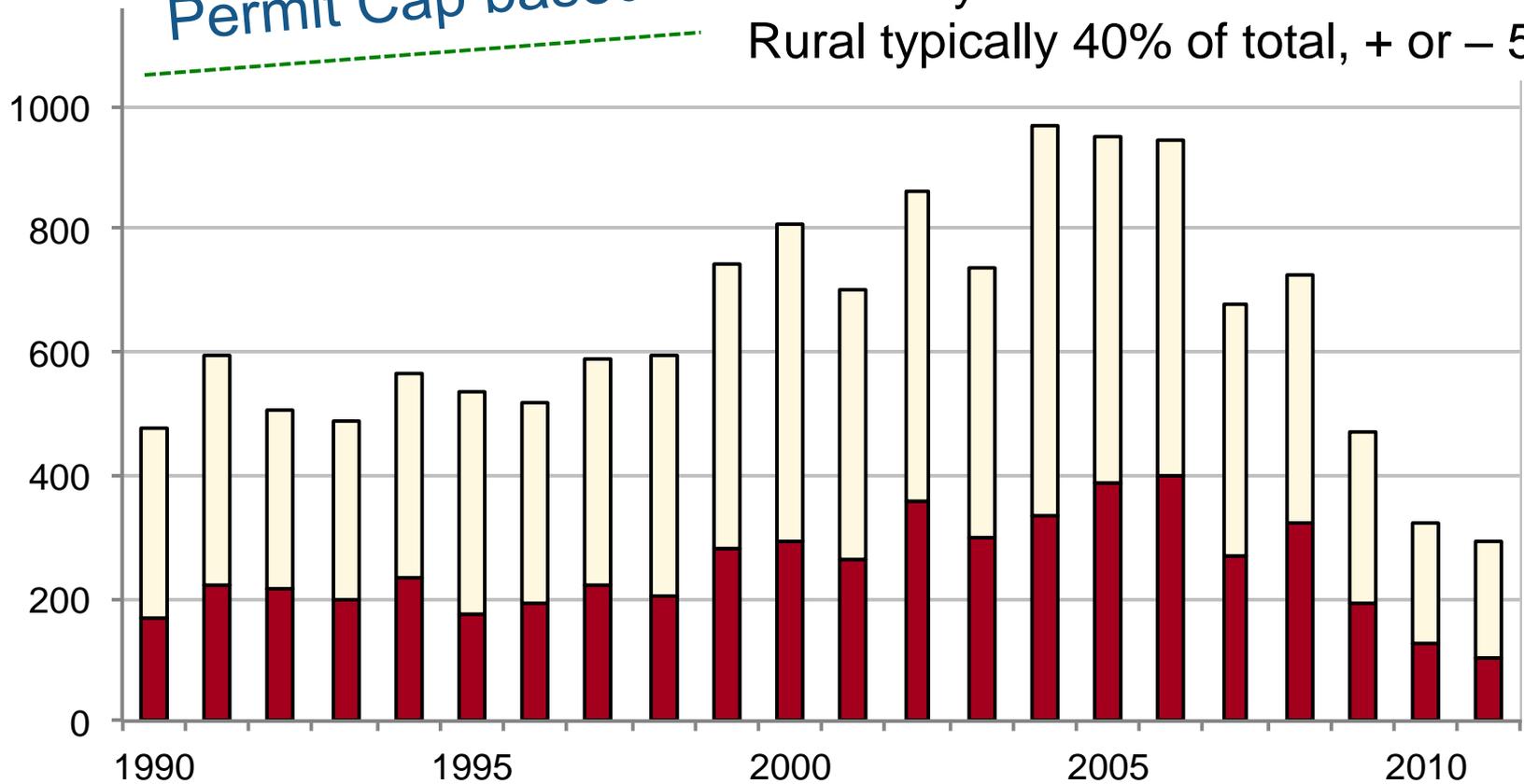
Housing in unincorporated SLOC:

Varies by factor of 2- 3

Has always been below the GMO cap

Rural typically 40% of total, + or - 5%

Permit Cap based on



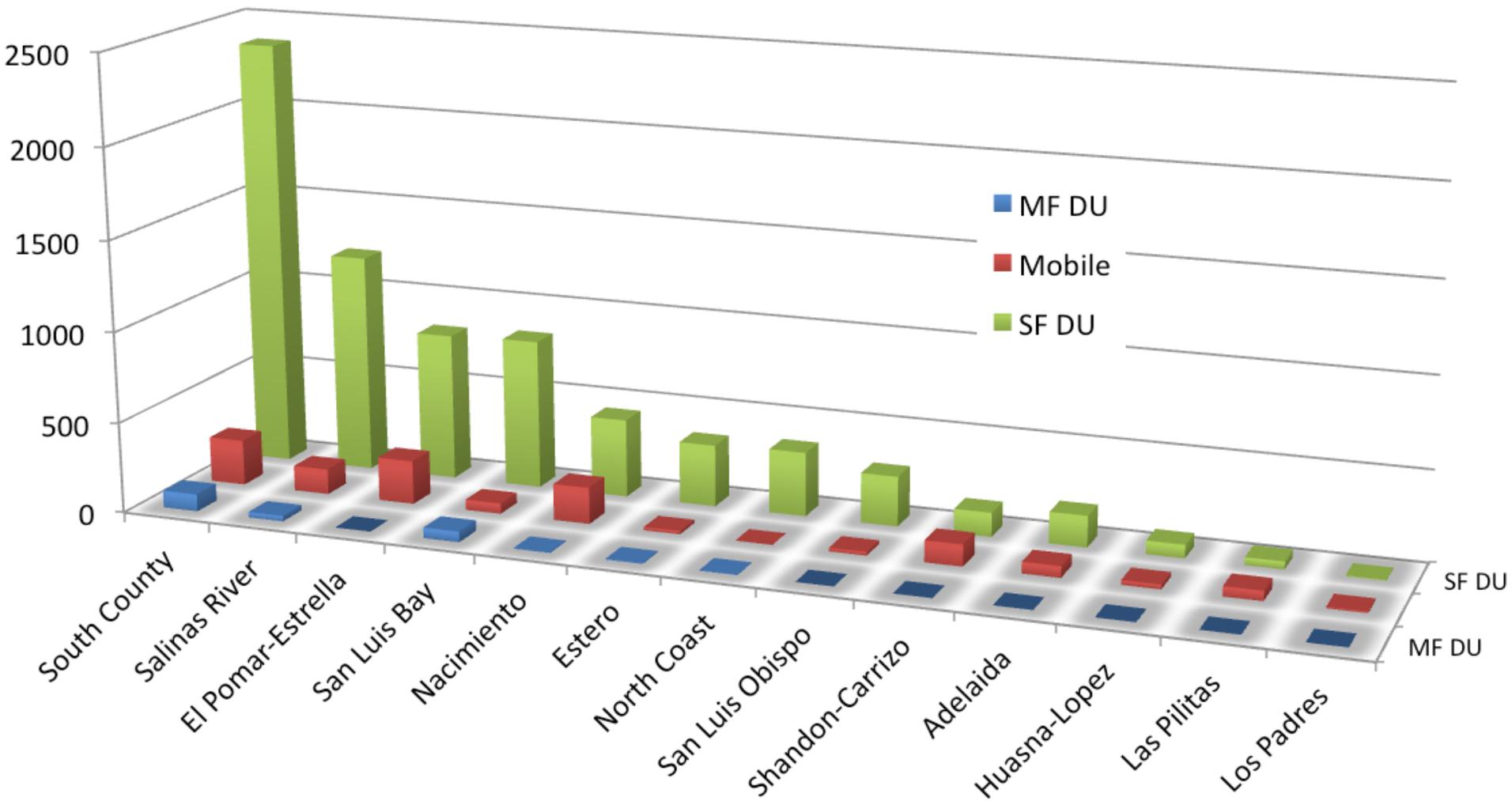
Source: San Luis Obispo County Building Permit Database

■ Rural

□ Unincorporated Urban

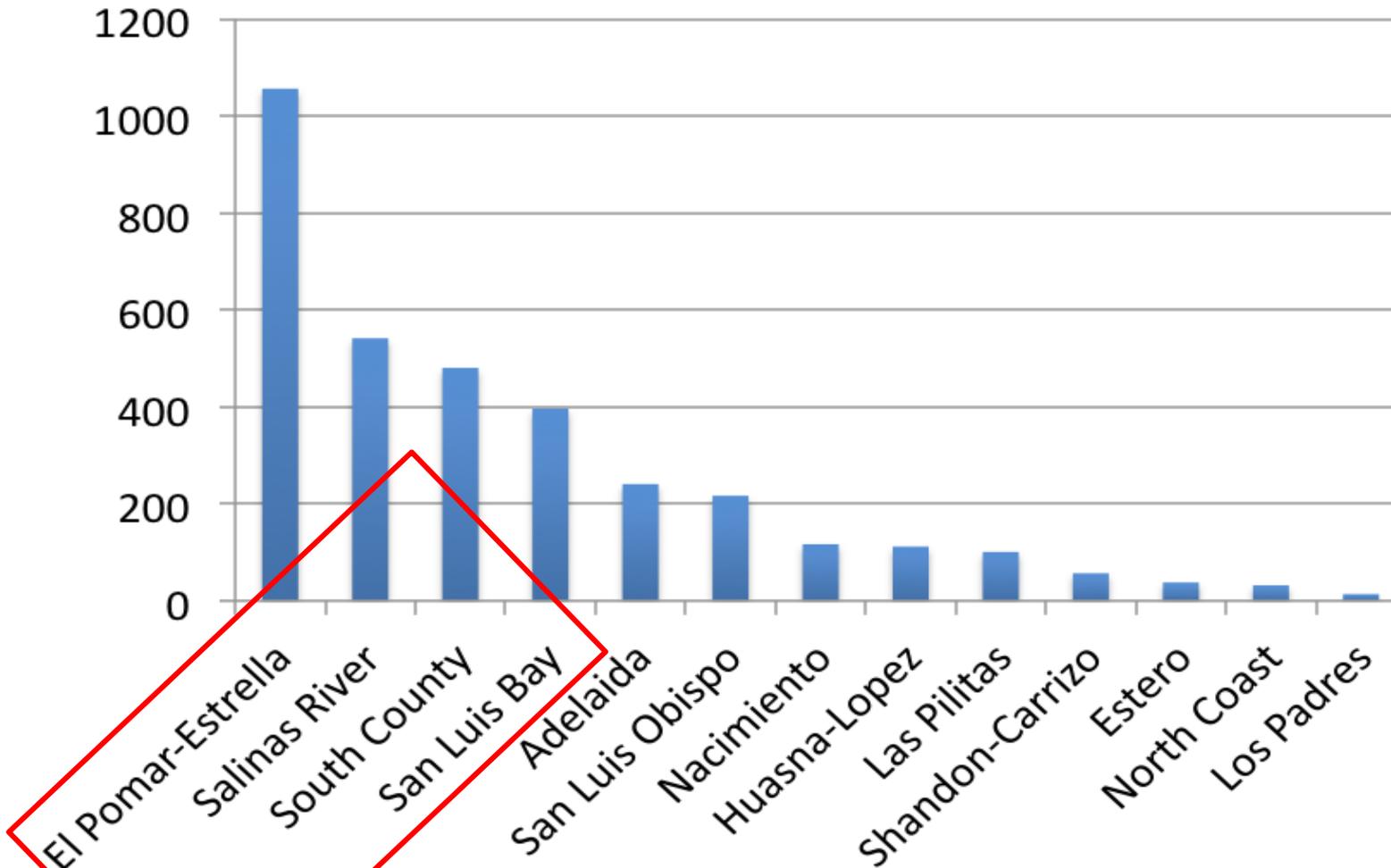


Building permits by type and area, uninc. County, 2000-11





Permits in Rural areas, 2000-11



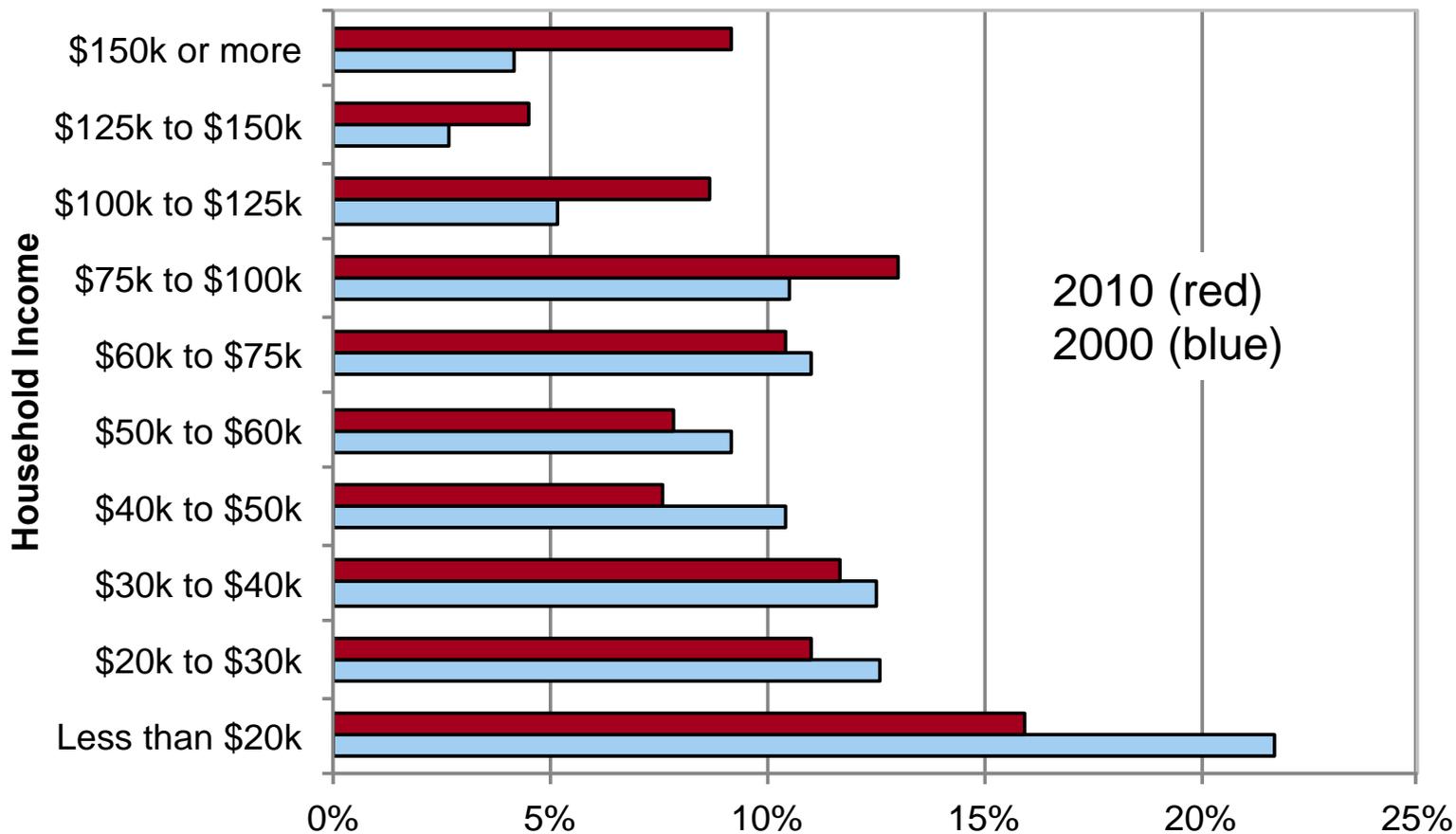
Construction values varies by location (Res Permits, uninc. County)

Area	Average Construction Valuation	Area	Average Construction Valuation
California Valley Village	\$ 89,737	Heritage Ranch Village	\$ 214,886
San Simeon Village	\$ 120,489	Woodlands Village	\$ 215,659
Edna Village	\$ 131,718	Cambria	\$ 223,235
Oceano	\$ 136,580	Los Osos	\$ 226,944
Nipomo	\$ 164,428	Rural San Luis Bay	\$ 228,277
Templeton	\$ 165,145	Rural Nacimiento	\$ 231,001
Rural Las Pilitas	\$ 166,300	Palo Mesa Village	\$ 244,246
Rural Shandon-Carrizo	\$ 186,428	Rural Salinas River	\$ 247,916
Rural El Pomar-Estrella	\$ 209,664	Rural Adelaida	\$ 270,433
Avila Beach	\$ 210,051	Rural Huasna-Lopez	\$ 301,054
Cayucos	\$ 211,023	Rural South Coast	\$ 303,165
Oake Shores Village	\$ 213,520	Rural San Luis Obispo	\$ 338,171

Source: San Luis Obispo County Building Permit Database



More population in higher income brackets (all County, 2000 - 2010)





But, reduced housing affordability (all County, 2000 to 2010)

Despite rising average incomes and drop in housing prices since 2008

Ratio of median housing value to median income (all County)

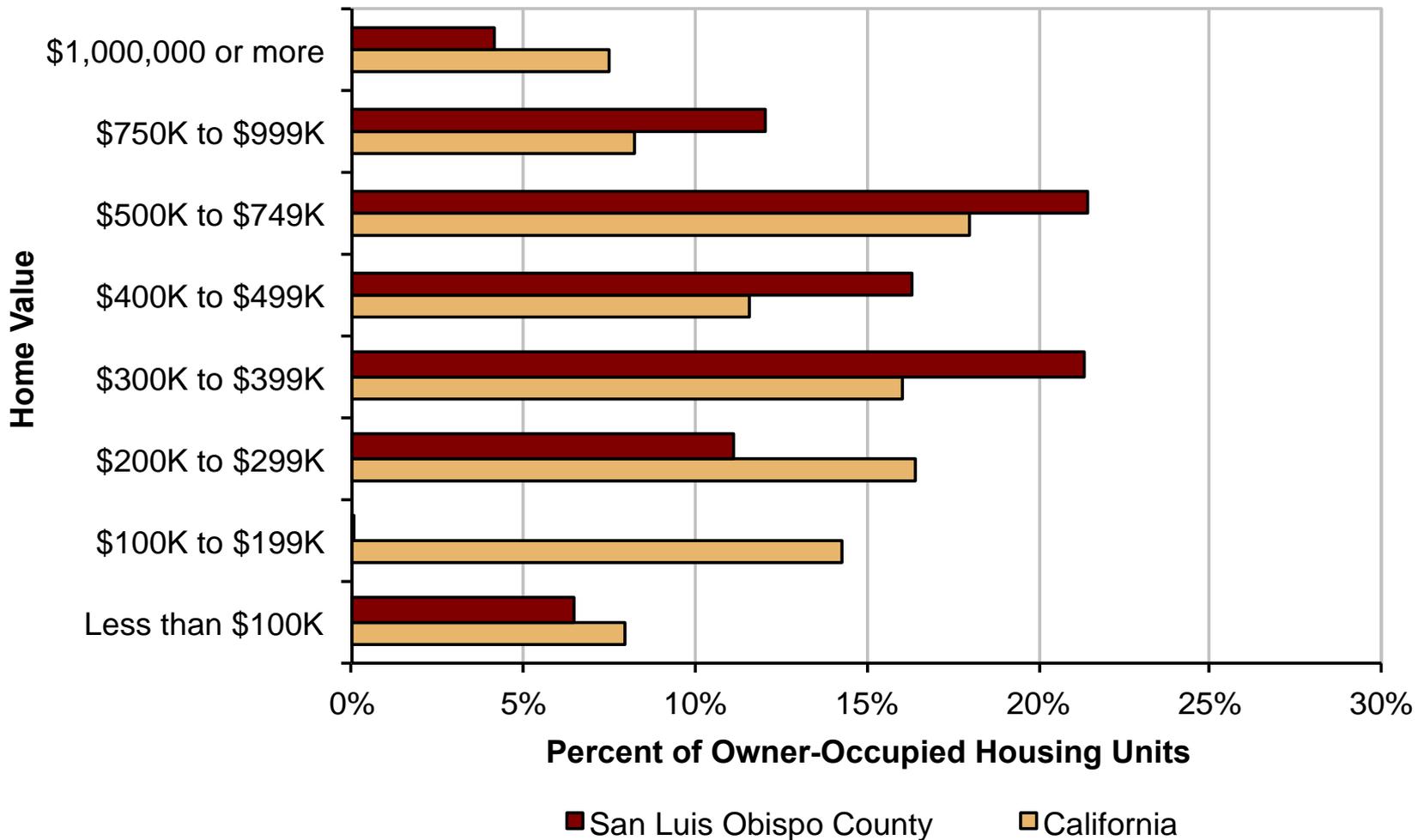
- 2000: 5.4
- 2010: 7.4
- Trend similar in sub-areas of the County



Small changes in household demographics (all County 2000 – 2010)

- Household size remained the same: 2.5 persons/household
- Median age increased: 37 years to 39 years
 - San Luis Obispo area: younger
 - North Coast area: older

Average Housing Value (all County, 2010)





Summary of housing demand

The trends (2000-2010)

- Growth in population and purchasing power
- Little shift in demographics
- Peak building around 2005 (1,000 DU in uninc. County); drop with recession (300 DU now)
- 80% of all new Rural housing in 5 of 13 planning areas (El Pomar [Paso], Salinas, So. County, SL Bay, Adelaida)
- Decrease in affordability index
- Wide range of values across County
- 2.3% growth cap had little effect on building



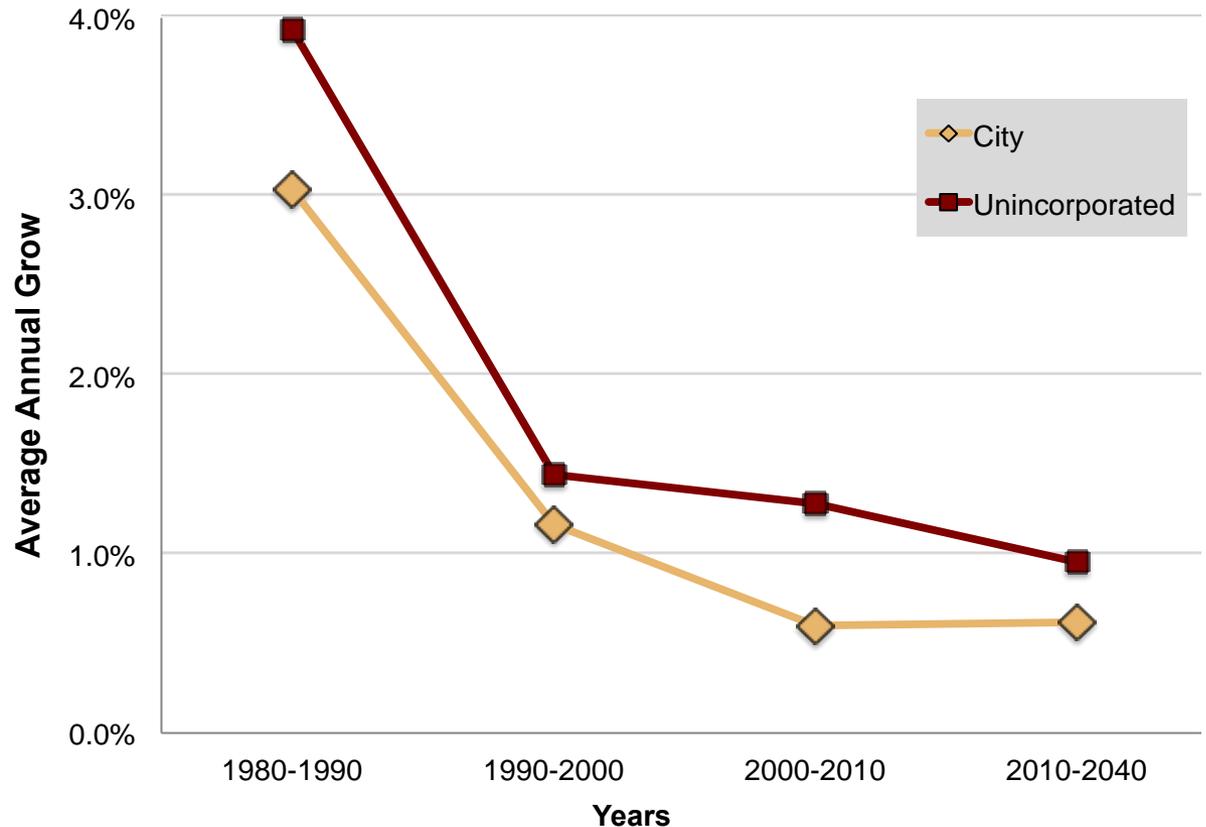
IV. Future Residential Development Without Changes in Policy

Based on County forecasts that
are informed by Recent Trends



County Population Growth

Historical & Forecasted AAGR 1980-2040



Growth rate expected to drop slightly from rates in last two decades

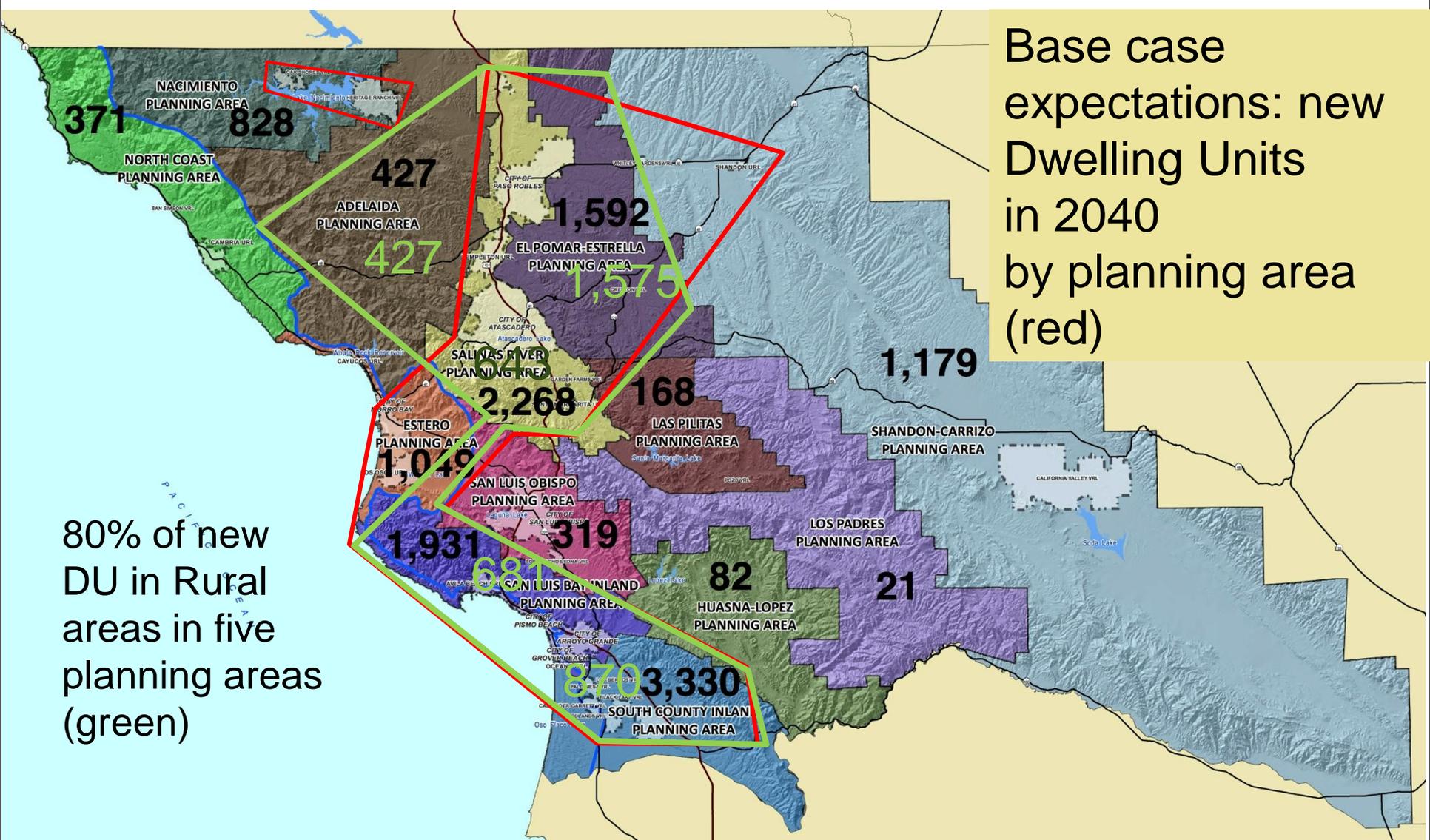
Unincorporated area to grow slightly faster than cities

Source: San Luis Obispo County 2040 Population, Housing, and Employment Forecast, AECOM, 2011



Housing capacity vs. forecasted housing demand (uninc. County)

- 45,000 DUs exist in 2010
- Build-out capacity
 - 90,000 DU: theoretical capacity
- Expected growth, 2010-2040:
 - ~**13,500** in uninc. County; ~ 450 new DU/yr (compare to 1990-2011 DU/yr: Average, 640; Minimum, 290; Maximum, 970)
 - ~**5,000** in Rural areas (average of 170 DU/yr)
- Slightly less if current GMO cap has any effect





Summary of base forecast

Demand forecast (AECOM, SLOCOG)

- Continued growth; slower rate
- Reasonable (but other reasonable forecasts possible)

Buildable land, housing capacity estimates (SLOC)

- Plenty in theory in aggregate; local shortages

Demand allocations (SLOC)

- Use prior allocation as guide
- Considerations: historical growth, resource constraints, planned infrastructure improvements, supply of buildable land



V. Future Residential Development With Changes in Policy

What is *different* from the base case?

Answer: a lower cap on rural residential construction, which is likely to change the amount, location, and type of residential development.



Scenarios for evaluation

Amend Growth Management Ordinance for rural areas

Scenario 1: Cap of 128 DU permitted annually

- 47: rural Paso Robles groundwater basin
- 81: other rural areas

Scenario 2: Cap of 89 DU permitted annually

- 33: rural Paso Robles groundwater basin
- 56: other rural areas

Both scenarios apply to parcels:

- Not in Agriculture land use categories
- Less than 20 acres in Agriculture categories



Starting calculations

Scenarios affect rural DUs

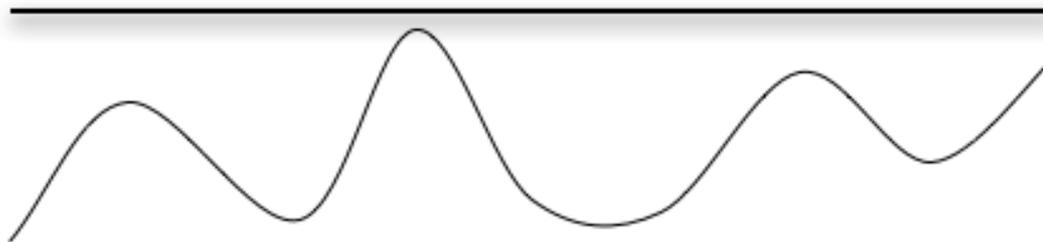
- Total DU/yr, average, in unincorporated County, base case forecast: ~450
- Implied average rural DU/yr: 170
Caps: Scenario 1: 128 Scenario 2: 89

Average annual **reduction** of rural DUs

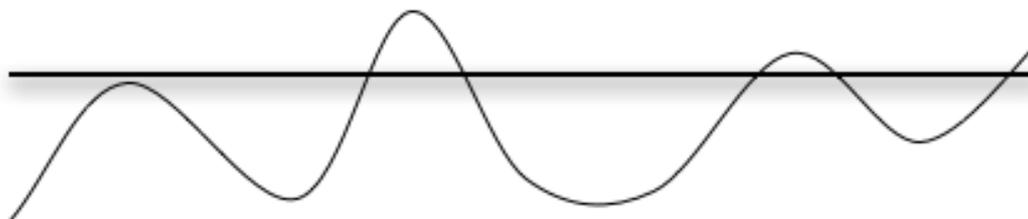
- Simple calculation (Avg – Cap)
Scenario1, ~40 DU/yr; Scenario2, ~80 Du/yr
- But...business cycles cause a greater reduction:
see next

Caps and Averages

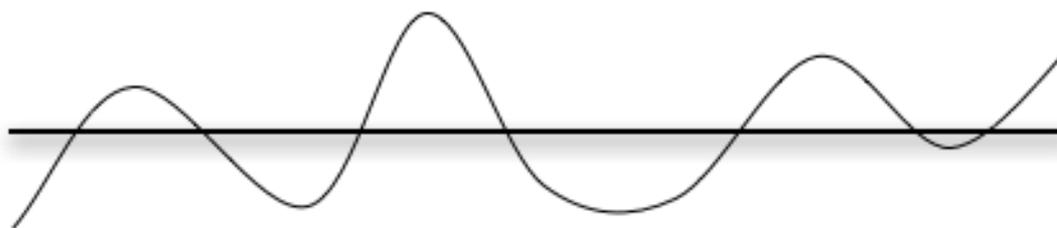
High Cap: no effect;
total DU = sum of
avg annual DU



Mod Cap: small
effect; total DU <
sum of avg annual
DU



Low Cap: big effect;
total DU << sum of
avg annual DU





Simulation: Assumptions

- Average Rural demand: 170 DU/yr
- Low year: 80 DU/yr; Highest year: 300 DU/yr
- Business cycle: 6 years
- Yields total of ~5,000 DU over 30 years (= forecasted residential growth for Rural)
- Cap (DU/yr in rural areas):
 - Scenario1: 130; Scenario2: 90

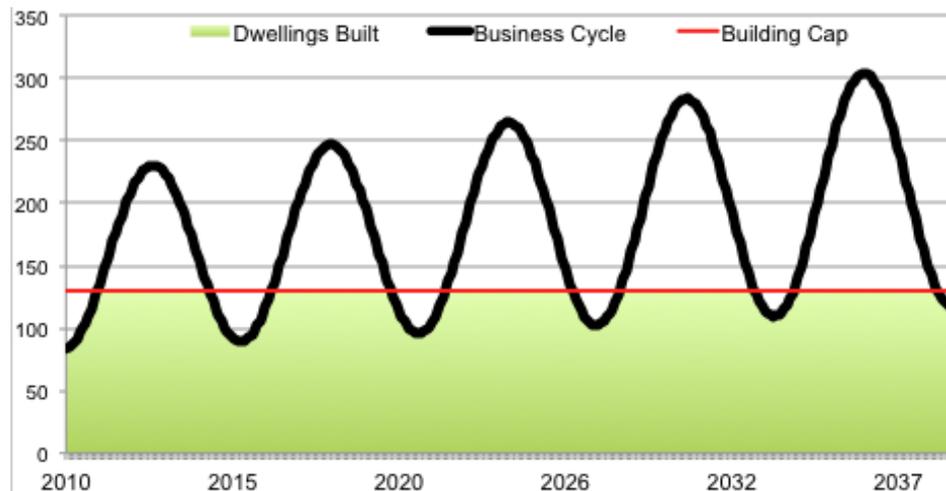
County target for Scenario 1:

- Reduce Rural DU from ~5,000 to ~3,900
- = reduction of ~1,100 DU over 30 years

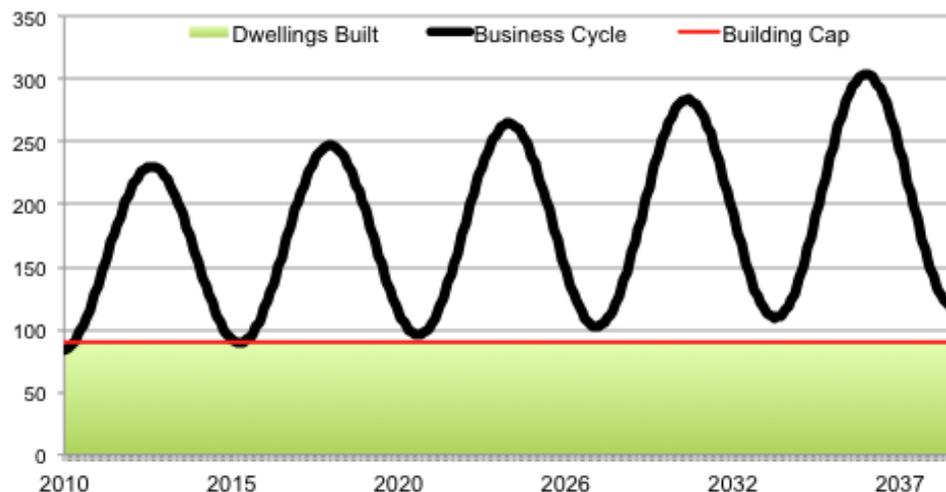


Simulation: Results

Cap 130: ~3,400 DU
(down 1,600)

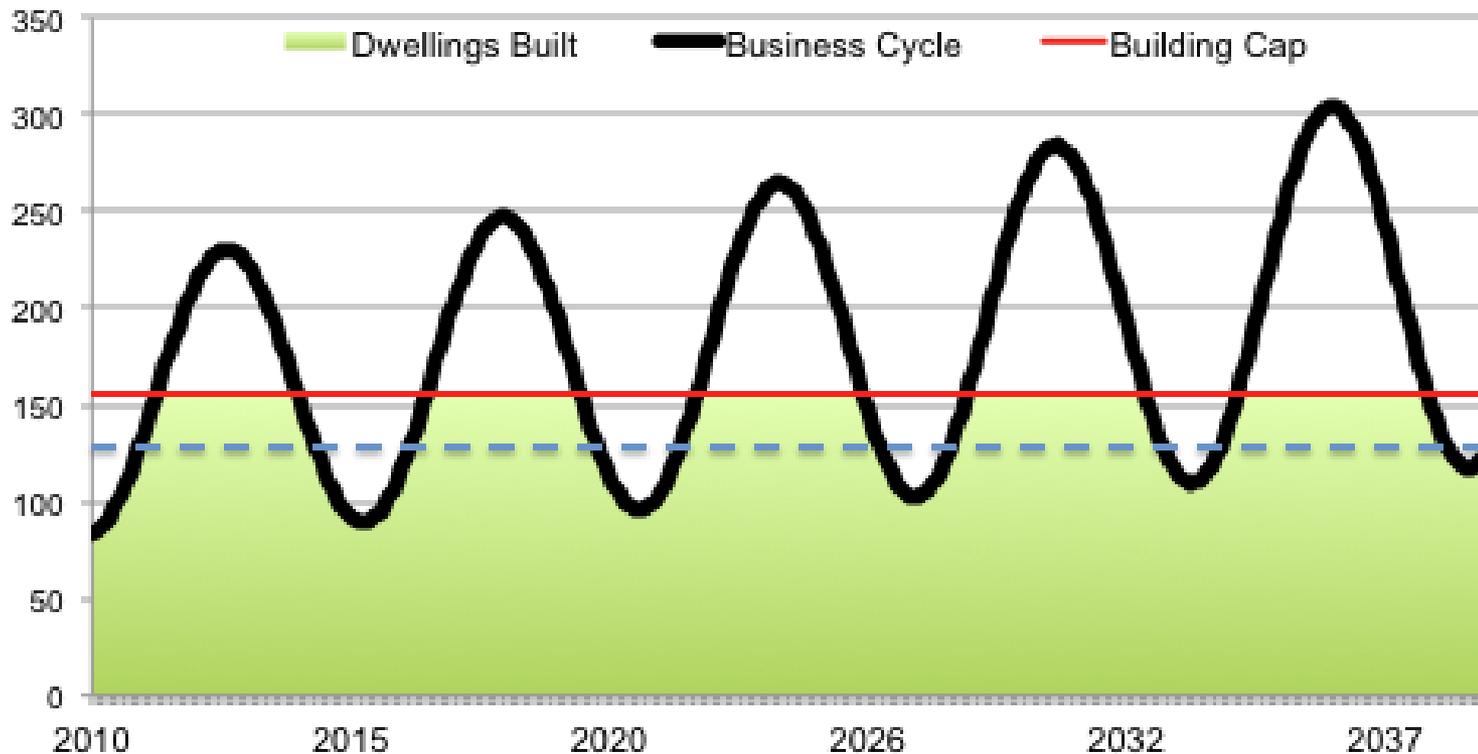


Cap 90: ~2,500 DU
(down 2,500)





Simulation: Results



Red: Cap 155: ~3,900 DU (down 1,100 = target)

Blue dash: Cap 130, Scenario 1



Conclusions (unadjusted)

Cap will reduce new Rural DU on the order of:

- 1,100 – 2,000 DU over 30 years

Setting the cap at desired annual average will reduce DU more than target

Possible adjustments:

- Set higher cap (e.g., 155 DU/year)
- System of “carry-overs”
- Monitor against multi-year (not annual) targets



VI. Does the capped Rural development go to other parts of the County?

Is all the capped development lost, or does some of it shift to other parts of the County?



Factors affecting the shift

Demand from consumers for housing (correlated to preferences for housing type, size, & location)

- Income
- Household size and composition (age of head)
- Ties to County (employment, family, school)

Supply / Cost at alternative locations

- Land and housing cost / price
- Transportation costs
- Amenity value



Impacts of a supply reduction in Rural areas

↓ Supply Permits / Buildable lots → ↑ Price

↑ Demand in substitute markets (local and not)

? Does Price increase enough, and is demand strong enough, to create and absorb more supply in non-Rural areas?

HH relatively mobile: both to and from SLOC



Cities as alternative locations?

Positive

- Better access
- Better services / amenities (especially schools)

Negative

- Higher land and housing price per square foot; higher fees and taxes
- Existing capacity (11,000 (?) DU) about the same as the forecasted DU growth to 2040 (~12,000 DU)
- Some housing products not available (esp. large-lot, rural residential)



Market segments for rural housing

Diverse market: low-end to high-end; different preferences and income to achieve them

Household type 1: working family

- 1a, lower income
- 1b, mid to lower-upper income

Household type 2: retirees (or almost)

- 2a, mid to upper income
- 2b, high to very high income



Simulation of shifts (1,500 DU reduction, 30 yr)

Assumptions

- ↑ Price all other housing: 2.5%
- Lower-income, working HH most likely to shift locations
- High-income, non-working low propensity to shift to cities; but some shift to Villages
- Higher percent of available permits will go to higher-end housing
- Strong incentives increase shifts for all groups, but more for lower-income, working HH



Simulation Results (1,500 DU reduction, 30 yr)

Shift

- No other change in policy: 35-65%
- Strong incentives in urban areas: 65-85%
- Most likely: 50-75%
- Net loss of:
 - 375 – 750 DU over 30 years
 - 13 – 25 DU/ year



Conclusions about the Caps

Likely reductions over 30 years from cap at 130 DU/year (*and for cap at 90*):

In Rural areas

- Minimum reduction: 1,100 DU (2300)
- Likely initial reduction (if no policy adjustments for market cycles): 1,600 DU (2500)

In County over all (after shifts to Urban areas)

- No new incentives: 550 - 1,000 DU (900 - 1,600)
- With strong incentives to shift: 200 - 550 DU (400 - 900)
- **Most likely: 400 - 800 DU (600 - 1,250)**



VII. Next Steps



For the project

Revised estimates of housing reductions

based on comments received tonight

Economic impacts of reduced housing

Draft report (late May / early June)

Final report (end of June)



Tonight

Informal Q & A at different stations

- **County station:**

- Why new strategy; how it works; historical development; base-case forecast

- **Consultant station:**

- Factors affecting future housing development; estimates of impact of new strategies on the amount, type, and location of future housing development

Survey