

Appendix P
Consideration of Previous Impacts of Phased Allocation Ordinance on Housing

Competition. The allocation system, in effect since 1975, was designed to control both the rate and character of development in Davis. Some see the system as the embodiment of the city's goals and the tool that enables it to demand quality development. The allocation system limits the number of units approved within a given time period and establishes high expectations for development projects. Apartment units were previously exempt from the allocation system. In May 1992 the city re-exempted multi-family rental developments. Residential developments in the Core Area are also exempt from the allocation system.

The allocation system allows developers to compete for a limited number of units to be allocated by proposing projects that best meet the city's needs as expressed through standard conditions of project approval. This positive aspect of the competition created by the system contrasts with those parts of the system that effectively reduce the number of developers operating in the city.

The scarcity of residential land within the city limits competition. The city has experienced a significant growth in residential development from 1997 to the present. This growth substantially depleted the number of residential developable lots in the city. The reasons for the fast paced residential development include the fact that the allocation system is a five-year "rolling" system. Some allocations were granted through development agreements, which rolled from the early to the mid 1990s to the late 1990s. All residential projects that are designated for development in the General Plan currently have all units allocated, except for Willowbank 9. The allocation system is based on eleven criteria. They include the number of units approved and actually constructed in prior years and residential needs report.

Housing Supply. The allocation system has regulated the number of units to be built in the city in accord with policies that emphasize internal needs, presumably generated by increases in local employment and UC Davis student enrollment. Whether housing growth would have been greater during the past three decades if the allocation system had not been in place is particularly difficult to judge. This is largely because other General Plan policies have impacts on the potential residential developments that occur in the city. The current General Plan policies include agricultural and open space preservation, which limit the extent of the urban area, thereby limiting developable land availability.

Since the initiation of the allocation system, more units have consistently been proposed than allocated. However, the difference between the two has steadily narrowed. This may be partly due to increasing familiarity with the system by members of the development community, resulting in a better ability to gauge in advance the number of allocations to be granted and scale their proposals accordingly. It also can be partly attributed to scarce developable land or development agreements. Other contributors to narrowing gap include environmental reviews and slow real estate market conditions.

Even within the allocation system, developers have had some ability to respond to market forces. Historically, this has occurred through delay in construction of allocated units until market

conditions were favorable. This was the situation with Mace Ranch, Wildhorse, Oakshade, and Willowcreek subdivisions. In the last two decades, the number of unbuilt allocations was greatest during 1981-82 and 1991-96, when high interest rates and real estate market conditions discouraged construction. With lower mortgage interest rates and resulting strong market demand, the excess was reduced, as developers took advantage of favorable conditions. This delayed construction of allocated units is a form of speculation. For instance, in 1991-96, there were a large supply of unbuilt allocations, particularly in the Mace Ranch, Wildhorse, Oakshade, Willowcreek, and Crossroads developments. These were eventually built from 1997 to present as mortgage interest rates and market conditions improved.

Development of multifamily units is not controlled by the Phased Allocation system. It is controlled by factors such as market conditions and land availability. The Phased Allocation Ordinance excludes "Small urban parcels" from its requirements. "Small urban parcels" is defined by the ordinance to mean development with the all of the following characteristics:

- Ten (10) or fewer gross acres,
- Created prior to January 1, 1989,
- Designated for residential land use on the general plan map, and
- Surrounded or substantially surrounded by non-agricultural development that is consistent with the applicable General Plan designation.

The 2001 General Plan Growth Management Policy 1.1 Action "a" requires modification of the Phased Allocation to make smaller projects subject to allocation requirements and to give preference to infill and redevelopment of urban areas within the community over the development of agricultural and open space lands, to the extent feasible. When the ordinance is amended to include this policy action requirement, infill development would still receive preference over new development projects.

Not all units allocated have been built yet. There are 117 units (as of February 28, 2003) from the Phased Allocation Plan, which have received allocation to build but have not yet applied for building permits. This number does not include 22 lots allocated but not effective till January 1, 2004. Willowbank Unit 9 subdivision does not have allocation for 19 units.

Effect of Allocation System on Housing Prices. The components of market-rate housing cost cannot be easily identified. The desirability of Davis as a place to live strengthens housing demand, increasing home values and cost. The city's strong identity, compact form and open-space surroundings all contribute to its quality and market demand.

With regional growth, planned enrollment increases at UC Davis and low interest rates, Davis, Dixon and Woodland are currently experiencing housing demand pressures and rising home prices. Davis has put in place a growth-management system in response to these pressures. However, the current housing demand pressure is a national trend and is not unique to Davis and its surrounding cities.

Elements of the allocation system that have been identified in the past by developers, lenders and realtors as increasing housing cost include lack of competition among developers and developers' inability to respond to favorable market conditions, as discussed above. Additional identified concerns were lengthy processing time and piecemeal allocations, which are discussed below. However, the contrasts to these arguments include the fact that the rolling of allocations often results in fast-paced development during favorable market conditions. Also, the scarcity of developable residential land affects the allocation system.

Effect of Allocation System on Development of Affordable Housing. The Phased Allocation Plan exempts from allocations all of the following:

- Housing units granted allocations under the previous growth limitation program;
- All commercial and industrial development;
- Residential development within the downtown Core Area;
- Infill residential development; and
- Affordable housing for very-low and low-income households.

The growth management policies and ordinances contribute to the restriction excessive housing development, including affordable housing in the city. However, given the recent residential housing growth in Davis, it can be argued that the limitation of the growth management policies and ordinances are moderate. In May 1992, the city exempted multi-family rental projects from any allocation requirements. This action allows apartment complexes consistent with zoning and the General Plan to be built at any time.

Lengthy Allocation Processing Time. Since 1980, the shortest period between an allocation approval and the issuance of a first building permit was three months and the longest was 41 months. Some delays are caused by developers' response to market conditions, changes in project applications, or securing financing. Since 1989, the amount of time between first allocation and building permit issuance has been as small as the next fiscal year and as long as three years. For instance, the Wildhorse subdivision amended its development agreement to receive accelerated allocation, which resulted in units being built and occupied within a 12-month period.

Piecemeal Allocations. In the early years of the allocation system, many projects receive several allocations over a period of years, with as few as three units approved in a given allocation and no assurance of future allocations. The city has stated, however, its intent to allow developments to fully build out within fifteen years of the first allocation. Each allocation requires regulatory and financing applications, which could be done at one time if a total project approval were granted, even if phasing were to require development at the same pace as results from the allocation system. Because production construction techniques cannot be used in small-size projects, housing cost for such projects are higher. Phasing programs would not affect this.

However, the most recent major subdivisions in city received their allocations through development agreements. There were no piecemeal approaches in the allocation of units to the subdivisions, which include Wildhorse, Mace Ranch and Evergreen.