



**BAY AREA
ECONOMIC
FORUM**

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discussions
on vital issues
concerning the
Bay Area*

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The Economy*

THE FORUM REPORTS

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Housing & the Economy

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In the 1999 Bay Area Poll transportation and housing were identified as the number one and two issues of concern to Bay Area residents. The two are, in fact, closely related. The lack of available housing and high housing costs drive Bay Area residents to increasingly remote locations in search of affordable homes. This places a growing number of vehicles on already overburdened roadways, which in turn leads to worsening congestion, a diminished quality of life and environmental degradation.

The fact that the Bay Area has a housing and transportation challenge is well known to anybody who lives here. Less understood, however, are the reasons why the region is facing this crisis, and the implications for the Bay Area's economy if the related issues of housing and transportation are not effectively addressed. The following discussion by the Bay Area Economic Forum's Board of Directors and invited regional leaders analyzes the Bay Area's housing challenge, its economic implications and options for its resolution.

SUSTAINABLE DEVELOPMENT

Richard Clarke

It's a pleasure to be here at the Economic Forum. A number of us were here at the beginning and it's great to see it thriving and doing good work.

I want to talk about sustainable development, because we are talking about jobs, housing and transportation in that context. One of the Rio conferences defined sustainable development as "meeting the needs of the present without compromising the ability to meet the needs of future generations." That sounds very simple, but when you consider what's going on in the world, it's complex. In 1993, President Clinton appointed a group of us to serve as a Council on Sustainable Development. That group consisted of about eight business leaders, the heads of all the national environmental groups, plus about six Cabinet Officers. The Vice President was our leader and the one most interested and most involved with our efforts.

If we're going to have the kind of future that we all want, and that enables us to have the quality of life that we have enjoyed for decades, then we need to look at it in this context. First, we need a growing economy. We need to have more jobs, and that that comes if we have more capital and the ability to grow businesses. Second, we need to preserve the quality of our environment. Third, we can't deny any segment of our society the opportunity to share in the benefits of the economy and the quality of the environment. That's equity, and we were very well represented there by the labor unions, the NAACP, and social justice groups nationally.

The idea was to develop, through consensus and collaboration, a series of steps and recommendations to be delivered to the President on how we maintain a sustainable future for America. We have the last version of that now and it's called "Towards Sustainable America: Advancing Prosperity, Opportunity and a Healthy Environment for the 21st Century."

One of the key issues is how to create more jobs in an environment where our farmlands are being eaten up by growth and we're producing more air emissions. Also, more and more there is a difference between the haves and have-nots. We have an increasing gap between those with very good jobs, who are a large segment of our population now, and those who have low pay service jobs. They cannot feel shut out or barred from the benefits that the rest of us are enjoying, or you will have crime and social unrest. So there has to be not a guarantee, but an opportunity.

Our economy here is the most vibrant economy in the nation, if not the world. We're the driving force of the high-tech globalized economy, and we have greater diversity, both ethnic and social, than probably any area in the nation. However, we face many problems and issues. We're creating a lot of jobs here and they're basically high paying. The Bay Area has the highest income level in the nation, but because of that and the shortage of land, housing prices are astronomical. Of the top 10 counties in the nation, 4 are in the Bay Area: Santa Clara, San Mateo, Contra Costa, and Marin. Those are high-income areas. So with new jobs coming in, where are people going to be housed? Are they going to commute from Tracy or Modesto into Silicon Valley? Are they going to commute from Fairfield and Vacaville into the East Bay? Are they going to commute from Petaluma, Santa Rosa and Windsor down into Marin County? If they do we will have an exacerbation of our already severe traffic problems.

Then you still have the issue of six separate independent regional transit agencies. It has been very difficult to get an integration of their functions and their services so that it is a regionwide transit authority. The biggest challenge is that we have over 200 government entities in the Bay Area and each has its turf.

It's going to get worse with the influx of people and the jobs we will be cre-

ating here in the next five years. "Smart Growth," basically is a form of growth that eliminates or at least minimizes

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sprawl and the kind of growth where they take "greenfields," or open areas, put in a subdivision, and just keep pushing further and further away from the center of the towns. Today it takes 4 to 5 feet of space to provide one foot of housing when you factor in highways, shopping malls and service functions. Smart Growth tries to reduce that ratio, so that you have a higher density of housing compared to other services.

In our report to the President, infill was one of the major ways we identified for dealing with the issue. It is amazing really how much underutilized land is available. There are large areas in Emeryville where industries or commercial facilities used to be, that are uneconomic in terms of the value of the land. South of Market in San Francisco is another area where the land is underutilized. Of course there are major programs now to rejuvenate South of Market with a mix of residential and businesses, to bring the housing closer to where jobs are. In Marin County, in downtown San Rafael, on almost every street corner there are new townhouses being built and funded as part of affordable housing projects because there is no place in Marin for the police, the firemen or librarians to live. So a combination of Federal government subsidies and grants plus action on the part of the City Council has resulted in significant infill housing units downtown and it is becoming a village where housing, jobs

and services are in an area largely within walking distance.

There are many programs and plans underway that reflect Smart Growth. We have Federal programs, such as the Location Efficient Mortgage Programs, where the Federal government will back up mortgages that are greater than they otherwise would be, if they're in an area located within walking distance of jobs. That's because people don't have to spend as much for transportation and transit, so they can afford to pay more for the housing itself. There's also a National Brownfields Partnership that the Federal government is proposing to provide funding for the conversion of brownfields. So there are a number of ways that local communities can benefit from programs at the national level, which came about largely by our work on sustainable development.

There is another huge opportunity in the Bay Area due to military base closures. The Martin Group is a model with what they are doing at Hamilton Air Force Base, where they have a balance of housing and jobs that eliminates traffic and commutes. These bases—Hamilton, Moffitt, Treasure Island, Mare Island, Oakland Army Base, Alameda Point, and the Presidio—all offer opportunities for housing.

Looking at transportation, the water has always been a negative for people trying to get around the Bay Area. You couldn't go over it, so you had to drive around it, and the bridges are jammed to capacity. The proposal for an expanded ferry system by the Bay Area Council and the Bay Area Economic Forum clearly offers potential. I ride the Golden Gate Ferry from Larkspur to downtown San Francisco often and we have a new catamaran that does it in 30 minutes. When we get to the Ferry Building the buses are waiting for you, and they go up to the Financial District. It's not only efficient, but also a very relaxing, pleasant way to commute. You get reading done, relax and enjoy the scenery, and when you get to the office you're

not all hyped up from battling the traffic.

We also need, in my view, a greater coordination of the regional transit agencies. The BART—CalTrain partnership for the airport is a help. If we get down to San Jose with Valley Transit and CalTrain there are opportunities to improve traffic. So there are a lot of things that can be done.

Sunne McPeak

The Bay Area Alliance for Sustainable Development process should end up with an urban limit line. In effect we're calling it a Bay Area Footprint. We started by asking what's the population being generated by this region, and it turns out that 62% of the area's population is going to come from right here—from births over deaths. Even if you put in a moat and bar people from moving in, unless everybody stops having kids we're going to have an increase in population.

We have begun the process of looking at population and job generation and asking, what housing and what acreage would be needed to accommodate it? Running different scenarios, the Bay Area Alliance for Sustainable Development has set a discussion benchmark. We're looking at trying to accommodate as much as half of the housing for the future within the current urbanized footprint. Just achieving 25% - 50% more density on average gives the bottom line conclusion that, yes, there is enough land to accommodate housing even without building on our wetlands, on prime farmlands, or on unique habitat areas.

I think we are going to get to what is at least an agreement around where growth should happen and where it shouldn't and try then to get less of a conflict among builders, neighbors and environmentalists. That's not going to happen only by regional agreement, although the Compact for a Sustainable Bay Area will be the foundation. We intend to seek State law that recognizes and rewards compliance with the Compact and Footprint.

LAND USE POLICY

Richard Spees

As long as I have been on ABAG we have talked about the jobs-housing imbalance. And I cannot count the number of committees and organizations I have participated in that have tried to reverse the trend toward LA type sprawl. I just got back from

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London where I wanted to go out to the Cotswolds to see the air bases we used to fly from. When we went there I was stunned to realize that there was a boundary on growth established for London right after the war and there has been no growth beyond that boundary. Now if we can just have that Churchillian kind of courage in the Bay Area to mandate a growth boundary, I think that many of our problems might be solved. But with 200 governments, I don't think we have the Herculean leadership that would make that possible, so let's deal with what we've got.

Today, these concerns have been re-packaged in the discussion of sustainable development. But the reality is that the balance has been getting more and more unbalanced. Let me just give you some statistics on growth:

1995-1997	Job Growth	Housing Growth
South Bay	15%	< 2%
West Bay	7%	< 1%
East Bay	8%	< 2%
North Bay	6%	2%

That's the problem. From a municipal government standpoint, there are real obstacles to overcome in order to build housing in established communities:

Fiscalization of land use. If you develop an acre of land with housing, a city will spend more in servicing those residents than it will bring in as property tax. Develop that same acre of land with commercial uses and the city will bring in far more sales, property and business tax revenues than it costs to serve the development. So what does that tell you? We're all chasing "big boxes" and similar kinds of developments.

Site Assembly Brownfields. Site assembly (where you have multiple private owners) is a tremendous problem for us in the urban center, and of course many of us have brownfields, which have contamination and other issues.

NIMBYism and resistance to higher neighborhood densities. NIMBYism ("not in my backyard") is a problem, as is the problem of historic preservationists going to the extreme. In our City, for example, we have 20,000 buildings with "historic significance." That becomes another obstacle in the nimby syndrome, as you get a fight on almost every building.

Unwillingness of local jurisdictions to join a regional approach. We are beginning to break some of this down, but the fact of the matter is that we have not been working well together. About six months ago, the InterRegional Partnership was formed to look at this mismatch of jobs and housing. The InterRegional Partnership consists of the Counties of Alameda, Contra Costa, San Joaquin, Santa Clara, and Stanislaus, with ABAG, the San Joaquin County Council of Governments, and the Stanislaus Area Association of Governments.

ABAG predicts that by 2020 the nine counties around the Bay will add approximately 1.4 million new residents and an equal number of new jobs. But during the same period it is expected that only 500,000 housing units will be built. Typically each housing unit supports 1.4 - 1.6 working people. The statistics mean that close to half of the workers coming to the Bay Area will have difficulty finding appropriate housing—which in turn adds pressure to growth in Modesto, Tracy and Patterson. ABAG's projections show that

new housing units are not being built in the same areas where the new jobs are. Over the next 25 years the number of people not living close to their jobs will increase substantially. An increasingly common commute will be from the Central Valley to South Bay and East Bay destinations via the Altamont Pass.

ABAG has made two strategic recommendations: 1) Bring jobs and housing closer together; and 2) Establish more sustainable methods of moving people between home and work.

Let me turn to Oakland, which may be an example for the future. With the election of Jerry Brown, Oakland has embarked on an ambitious plan to add 10,000 residents in the downtown area. That means adding 6,000 new housing units, and doubling the population of downtown. Within the 300 blocks of downtown, staff analyzed each parcel of land as to land use and value, and from that we have identified clusters of land where neighborhoods could be developed. Our overall strategy is to concentrate on public improvements in an area, and City-assisted projects to jump-start the market.

Here are our Strategies: 1) Improve street lighting, parks and streetscapes; 2) Enforce code violations on dilapidated buildings; 3) Attract new neighborhood-serving retail, through mixed-use projects; and 4) Form a downtown Business Improvement District.

On the challenge of Site Assembly, where you have multiple private owners, our strategies are: 1) Issue RFPs for City owned sites; 2) Conduct a programmatic EIR for each of the key clusters; 3) For owners of property working with the City we are going to have standardized agreements; and 4) Use eminent domain to assist developers with site assembly.

Turning to the permit process (which is too long and too expensive) we will: 1) Set up a one-stop permit counter for the 10K housing units; 2) Assemble a 10K-project team of City staff to expedite planning reviews; and 3) Adopt clear design guidelines (to help alleviate neighborhood concerns).

I don't know if we have all the answers, but that's our effort to develop some major housing downtown.

David Martin

Looking at this as a developer, there are a couple of related issues. The tax structure is set up in California on a marginal basis for city governments, or for that matter county governments, when they go into the land use approval process. If they have

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a choice between approving housing or a shopping center, in a commercial tax structure they get profit taxes, sales taxes, or motel/hotel taxes. The cost of servicing a shopping center is less than the revenue they get from it, so it's a profitable decision. When it comes to housing, particularly low density housing, the servicing cost exceeds the revenue which the government gets for approving it. The permits for an apartment in the Bay Area cost more than a single family home in Lodi [San Joaquin County]. It's the public service costs: maintenance of the sewers, the police, fire, and schools associated with the single family home that are a financial disincentive to approve housing over commercial use.

So what does that mean? Well, it means that the cities that are interested in revenue would rather approve the shopping centers, the office buildings, and the commercial use, and push the housing to the outskirts. Communities that are on the edge which don't have the opportunity for commercial development look at the equation and say, "If our choice is between agriculture and housing, we'll choose housing." This fringe housing supports the urban core of commercial development and it throws the job/housing balance off because it creates traffic and all sorts of other issues.

One fundamental issue is the fact that all these land use decisions are made at a very local level; it is small cities and small community political bodies that make them, and they are all very territorial. The total number of political bodies in the Bay Area is in the hundreds.

When you start thinking about solutions, how do you attack the problem? We either have to attack the root of the problem, which is the financial issue, which is Prop. 13, which is statewide. It almost feels too big to tackle. Or you have to come at it from the top. One of the thoughts of Bay Vision 2020 [a 1991 proposal to consolidate regional government functions] was to create regional government. If, for example, a land use developer came in and said, “we would like to build high density housing on the vacant surface parking lots around this BART Station,” and the local jurisdiction turned them down, they could appeal that decision to a regional board, which could override the local government on certain issues. Having the fear of that appeal hopefully would inspire local governments to do the right thing.

The other interesting thing about the economics of these decisions is that high-density housing is less costly than lower density housing because you get more revenue in a smaller area with less service cost. So higher density housing is a good thing in that it costs the city less to improve it. It’s a good thing because it tends to be more affordable. It’s also a good thing because it tends to work better from a transit perspective.

Some people believe that higher density housing means lower income people, which “I don’t want in my back yard.” There was a fundamental belief that many local government officials would really like to approve this stuff, but were fearful of approving it for fear of retaliation from local activists. So this regional government would give them the political cover to say, “look, they are going to approve this over our heads if we don’t approve it. My job is to get the best deal I can for us, but I still need to get it approved.”

It’s a tough problem with no obvi-

ous or easy solutions. Some of the wisdom we took out of the process was that Prop. 13 takes a lot of the blame, and the fact that these decisions are all made on a local level, and are therefore very provincial, also shares the blame. These are regional problems, but there is no one skilled or obliged to solve them. If there is a regional problem, take air quality for example or transportation, how do you fix it without a regional solution and how do

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-David Martin

you get to a regional solution without some entity in place? So one of the big ideas behind Bay Vision 2020 was to consolidate these agencies. You have air districts, water districts, etc., and could collapse them all into a single entity with efficiencies of critical mass. You get a consolidated approach to a solution as opposed to now, where you have all these competing interests instead of cooperating interests.

Sean Randolph

I was at a meeting at SGI [in Sunnyvale] a few weeks ago and some good soul tried to come [from San Francisco] by public transit. They must have started at 6 in the morning and rolled in about 9:30 with an awful tale about the waits and transfers.

Martin

That’s because there isn’t a regional system. If you had a regional entity that said, “my job is to move people within the region,” you would get a very different system from today which is, “I have to be responsible for moving people in San Mateo County” or “I have to be responsible for moving people in San Francisco County” or Santa Clara County. I think the idea of regional government is a big idea, a controversial idea, and a sound idea. I think it offers the opportunity to come

up with some regional solutions to regional problems because right now, without something like that in place, it’s hard to imagine how you can tackle them.

Look at the operational inefficiencies just from the administrative process. It’s crazy. It’s easy for me to say, because I’m not one of these entities that would get collapsed, and if I were I’d probably think differently about it. But there’s a lot of logic in collapsing the structure and getting rid of the layers to make it more efficient and give strength to a larger regionwide vision. The suggestion of consolidating power is really about trying to empower the region to solve these problems.

Right now these fractional controls that are scattered about are really mini roadblocks. A land use approval process is like stacking up dominos and there are fifty dominos here. The local zoning board has to say yes, the planning commission has to say yes, the city council has to say yes. CalTrans has to say yes as to how it affects freeways. You’ve got the Regional Water Quality Control Board for land clean up, and on and on and on. If anyone of those people says no, they can kill it. It takes 100% consensus, in essence, for things to happen. So think about the probability of making things happen.

You do the environmental impact report. It says “x” amount of new cars are generated, they impact the freeway, so CalTrans has something to say about it. The Water Quality Control Board has something to say about the ground water quality. The Department of Public Health has something to say about the dirt. The Regional Air Quality Control Board has the air. The Sierra Club has something to say about the wetlands. Noise. You know in Marin City, the land use approval process took us about 11 years. It was a blight area. The county was actually reasonably supportive of us getting it done but Sausalito had an opinion. The Regional Water Quality Control Board had an opinion, CalTrans had an opinion, BCDC, all these folks had opinions and all of them were different.

You go through every issue: there is a separate agency with power to litigate, to object, and to derail a project. It's really quite amazing that anything ever actually happens. So to answer your question, how do you solve the jobs/housing balance in the region, you can try to figure out how to make it more economically interesting for cities. I think you've got to attack Prop. 13. You can create appellate bodies, like regional governments. Now that we have general economic prosperity around the region and some of the city budgets and county budgets are a little more comfortable today than they were a few years back, maybe their conscience will make them do the right thing.

One of the suggestions again that came up out of Bay Vision 2020 was for a of revenue sharing program where either the regional government or the state government said, "for those people who build more commercial development than housing, we're going to take some of that sales tax revenue and share it with communities to build housing and try, through a revenue sharing agreement, to neutralize the economics of land use decisions."

I'll give an example. In redevelopment agencies, you have to take 10% of the incremental revenues you get and set it aside for affordable housing. If you don't use it you lose it. So, let's create a pot of money and tell the local community that if they don't use it for affordable housing, it comes back to the state. That was one way to try to give economic encouragement. I think that has had some limited success. But it's not as much money as you'd like it to be and I'm not sure the state ever actively came in and tried to take it away.

My point is that there is a lot of knowledge that has been captured by prior cycles and prior participants that I encourage you to try to get your arms around. To me the issue is always the execution of the solution. What happened to Bay Vision 2020? All this effort on coming up with a solution, then when it got down to executing we were running out of gas. We got through the legislature, but were vetoed. I think it's a perfect issue for the Forum,

quite frankly. As far as I know the Forum is the only platform where you get government and business and the non-prof-

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-Dick Spees

its together in a format that might allow this kind of thing to happen.

Arabella Martinez

There needs to be a better way of financing affordable housing. The way it is being done is too difficult to get the kind of housing you need, and the numbers you need. Also, I appreciate what they are doing downtown, but there are also big tracts of land that can be assembled in East Oakland. It is unbelievable how much unproductive land there is in East Oakland. There needs to be a strategy in relationship to the whole city.

Dick has made the point that if we are really going to be a region and deal with this issue of the adequacy of housing, the housing/jobs balance, and the relation of housing to transportation, it's almost impossible to deal with it as 110 jurisdictions, and that there needs to be some integration at the government level that allows for a stronger regional perspective. Even MTC is much more aware of the need to do land use planning along with transportation planning, and I would have them include economic development as part of that discussion.

I think in terms of infill development. One of the major issues has to do with brownfields. That's a very expensive proposition. The Treasurer's office is beginning to focus on how you bring resources to the urban environment. Unless we can revitalize communities like Oakland the jobs/housing unbalance is going to continue.

Randolph

What about the Fruitvale Transit Village project [which aggregates housing, retail and community service adjacent to the Fruitvale BART Station]. One of the important goals of course, is putting more housing and jobs close to transit. How does this project serve as a model for what could be done elsewhere in the region?

Martinez

You have big parking lots around BART stations and there is nothing located next to them. So if people have to stop there's nothing. I think putting housing, services, and retail where people can get on and off very easily and do multiple things in one place is the way to go.

Jeanette Garretty

I want to go to the issue of what is important over the longer-term. I'm a firm believer in the power of the marketplace and the power, creativity and ingenuity of people. We have seen both of these played out in the Bay Area in the last thirty years and longer. It's a very competitive marketplace, and an increasingly global marketplace. The pressure on us is that no local government and no homeowners group and no neighborhood sitting anyplace is really going to be able to fight against it for a long period of time.

I want to compliment what the City of Oakland is doing. Dick mentioned that they've given up on the idea of getting big boxes first, hoping people will follow. That's not following the lead of the marketplace. The marketplace will say, "if you want retail downtown, get people first because that's what drives retail." The location of retail will not bring people there in and of itself. That's the power of the marketplace and that's what's being followed here.

The two constants I see in the marketplace are the level of competition and the magnitude of change. In fact, I'd almost argue that the only constant we have in this marketplace today is change. Taking the long view back, what has re-

ally enabled us to be here today with an extraordinary economy in the Bay Area, despite these high costs, has been our openness to change. The high-tech business we have today is not the high-tech business we had ten or twenty years ago. Twenty years ago it was semiconductors; ten years ago it was computers; now it's sales and service. Ask greater minds than mine in the venture capital community, who are the key facilitators of this whole thing. What the hot technology is going to be in 18 months, they will tell you, they don't know. Such is the nature of the business.

If they don't know what that is going to be, then how do we know where we want to put the jobs, where we want to put the housing, what that housing has to look like? After working with a series of California cities, I would say that 85% of the people that live in this community don't understand some of the basic fundamentals about how this economy works, yet participate very actively in decisions associated with jobs, housing, transportation and so on.

Larry Horton

At Stanford we have a different situation. Right now, Stanford's ability to build housing or additional facilities rests on permission from Santa Clara County. We are at the end of a ten-year permit and there is an elaborate process underway to see what sort of land use entitlements Stanford will be able to obtain for the next decade. That process will be finished by the end of next year and is very high profile on the Peninsula. The President and the Board of Trustees believe that our ability to use our land to improve the University is the single greatest challenge the University faces. Remember that this Forum has spent a lot of time talking about the importance to the Bay Area of three great universities for infrastructure.

Very briefly, we have 8,000 acres of land spread over six political jurisdictions: two counties (San Mateo County and Santa Clara County) and a little unincorporated land in Palo Alto, Menlo Park, and

Woodside. About 29% of it is in Santa Clara County and is on our core campus. Lest it be thought that we are not environmental good guys, 2/3 of the 8,000 acres is open space.

We have two needs for the future. We need academic facilities. I know Julie[Krevans] and Chang-Lin[Tien] are very familiar with the amount of money that is expected to be expended in the next decade at the intersection of biology, physics and engineering in every university.

The second thing is housing. We provide more housing than almost any of our competitor institutions. We house 92% of our undergraduates, 45% of our graduates, and 30% of our faculty on campus. Yet it is not enough. A lot of people are not aware of how competitive American universities are. We are very competitive with one another and the ability to have housing in our area can make the difference in our being able to get the best faculty.

So we're asking for two things. We're asking for some increase in academic buildings and an increase in housing. We are going to put it in the core of the campus, and two-thirds of our land will essentially remain open. We will have transportation, and transportation management programs. It's not a question of incentives. We've got the land, we've got the resources, and we just want to build it.

We actually expect substantial opposition to this plan. The real issue to us is that there will be real and measurable regional benefits to what we want to do. We had a poll not long ago that showed that 94% of the people in our area have a very positive feeling about Stanford University, 90% think we're a benefit to the community, but 74% think that traffic is the number one problem and 74% also think we are a part of that problem. Now the real question is, in the tension between local and regional interests, the decisions are made locally. There will be very strong local interests that do not want one more automobile or more housing, even if it's housing of their own people.

THE ECONOMY

Randolph

The issue of the availability and affordability of housing doesn't exist in a vacuum, but has a very direct impact on our economy and its competitiveness. The need for long commutes to find affordable housing is a major factor behind the increasing congestion on Bay Area roads and bridges. By one estimate traffic congestion costs the region and its residents

"We're seeing venture capitalists having to step up to the plate with major signing bonuses, major moving allowances that are really signing bonuses, and forgivable loans for executives in order to get them here."

-Mark Yowe

100,000 collective hours of lost productivity per day, and the Metropolitan Transportation Commission projects a 250% increase in congestion over the next twenty years. That's almost inconceivable.

The housing shortage also makes the Bay Area an expensive place to live and an expensive place to do business, particularly compared to other regions of the country. One of the things that drives our economy and makes it unique is its high level of creativity and innovation. The knowledge-based industries that are its leading edge depend heavily on attracting and retaining human capital, and the best minds and managerial talent. This includes, executives, engineers, scientists, and as Larry just pointed out, faculty. Without them our competitive edge can quickly erode. The managers of two leading executive recruiting firms, one based in San Francisco and another in the East Bay, have joined us for this discussion. I'm wondering how they see the lack of housing affecting their continued ability to attract top talent to the Bay Area?

Mark K. Yowe

When you look at the impact of housing and housing prices on the economy and

on the ability of the region to attract and retain the best people, absolutely there is an issue. I recruit a lot of people to the Bay Area, which from a real estate standpoint can be daunting. In the opinion of people who visit, the price-value relationship between the house and what you get for it is not only out of balance, it's crazy. People that come from New Jersey, for example, who live in executive estates on large plots of land find that they need to be replaced at many times the cost. It's not just the executive, but the executive's consideration of his family's ability to replace that lifestyle, that becomes an issue. Secondly, there's the issue of schools, private schools as replacement for the public schools, and transportation.

I've seen several things that have really influenced my ability to recruit people into the area. I have mentioned housing prices. Another is commute time. Now, we're talking about people who make \$600,000+ per year. It's not been my experience until the last 2 or 3 years that any discussion of "how far is the office from my house" has ever been a consideration. But because traffic congestion has become so difficult and unpredictable, people are unwilling to drive from Palo Alto to San Francisco, unwilling to drive from Danville to San Jose, and unwilling to drive from Oakland to Menlo Park because these commutes are sometimes impossible to predict. I've had executives quit jobs and take other jobs just to shorten the commute. I'm seeing more and more of this coming up in the early recruiting conversations: "Well, exactly how long a commute time is that."

We have often seen this at the manager-level. But even people that are making enormous amounts of money with huge stock options, who ought to be focused on wealth creation, instead are focused on quality of life, because of the lack of quality of life. There is a company that is going public next week that brought a CEO into the Peninsula from outside the State, and the compensation package that they had to put together to get that guy to come out here was astounding. Let's put

it this way: we're seeing venture capitalists having to step up to the plate with major signing bonuses, major moving al-

"The trend is that it has been increasingly difficult to recruit to the Bay Area . "

-Mark Yowe

lowances that are really signing bonuses, and forgivable loans for executives in order to get them here. This is more than they ever seemingly had to do before. Candidates are not going to say "yes" if they can't answer the fundamental question of how to live their daily life in at least an equivalent way to where they are coming from.

So yes, I think the Bay Area is a difficult place to recruit to. One of the most difficult places in the Bay Area that I have had difficulty recruiting to is San Francisco. Specifically, few can live here because of the high cost or unavailability of appropriate housing. We're seeing migration out into the East Bay. Executives seem to like to go to Orinda, Lafayette, Walnut Creek and Danville. We've seen them going even further out now to Pleasanton, Livermore and Tracy, taking long commutes in order to have homes that they are accustomed to, and lifestyles that are equivalent to other places in the U.S..

We're even seeing CEOs who are taking the jobs out here, moving into their homes, and then deciding that since they are the CEO they are going to relocate the companies. We see companies being relocated in total to places like San Ramon and Pleasanton, which has a good business climate for new companies. I've even seen candidates that I've brought here from other places come, develop the business, and when the business had traction move the whole company back to where they came from. We brought one CEO here from Atlanta, who just did that in Hayward. He grew the company, became a very important asset for that company, and moved it back to Atlanta.

Another significant thing is how the

people who we have recruited from here to other places, tell us about how much their money buys, how much more quality of life they have because their economic structure is so much better and how their lives are so much more in balance in terms of not having two hour commutes. This has become a big conversation in this business. Commutes, not business strategy. Very interesting.

These are people at the CEO and COO level. Some Vice Presidents in marketing, sales, finance and operations come in to find themselves really economically strapped. Often they have taken positions for moderate cash, with more of their upside in equity. I have had several searches in the last couple of years terminate late in the project, where the candidate was perfectly suited for the job, the candidate liked the client, the client liked the candidate, and the wife refused to come. Or a trailing spouse refused to come because of the hardship they would suffer in the short-term in terms of housing. This is particularly sensitive in the South Bay where you have to spend so much money to get such seemingly little value.

The trend is that it has been increasingly more difficult to recruit to the Bay Area over the last 3 years. And commensurate with that, the last 3 years has produced the most noticeable difference for those of us living here too, almost to the point where the problem seems to be beyond obvious resolution. Particularly in housing and transportation. So I think that unless these problems are addressed quantitatively and convincingly, this economic boom we're enjoying right now because of low interest rates, the availability of venture capital, the Internet industry boom and the growth in the technology sector will give way to a consolidation. At some point when the current trend reverses, we will see a deflationary period here that might not be so great.

The Bay Area was an ultimate destination 5 years ago, and it was one of the greatest jobs in the search business to bring someone into the Bay Area (especially in February from Chicago). It's al-

most as difficult now, as it was easy then.

What we have tried to do in addition to signing bonuses and richer relocation packages to get people to come, is to say “You don’t come here for the home you can buy, you come here for the freedom and the home you’ll be able to buy in 18 months when your company is very, very successful.” The economic boom still holds great promise for these executives, but they have to come with built-in deferred gratification because we can’t give them that standard of living on Day One. They have to become wealthy to have that here, and we play on that. But in years past, people were coming here for wealth creation and the highest quality of life. Now it’s just wealth creation. So it’s a question of whether these people want to take the bet.

Randolph

Would it be right then, that when at some point the Internet bubble recedes and you can’t count on that wealth creation in the short-term, that’s going to make it a harder sell?

Yowe

I think so.

Randolph

For more traditional non-technology sectors, do you see the same scenario playing out? I would imagine it might be even more difficult for them if they’re not able to pitch the potential high growth of the high tech or dot-com companies.

Yowe

This is key. You’re on to something here. To bring someone into a hospital system here as an Executive Administrator, or into a managed-care organization from another major U.S. city, the salaries are appreciably different from technology and the opportunities don’t yield the same upside. And the companies, frankly, aren’t as willing to pay the huge relocation that this requires, particularly since the numbers are getting bigger because of people saying, “If you really want me, you are really

going to have to step up to the plate to do it.” It is costing us more to get the same talent.

I sit here capable and give you a dozen examples. The nature of our business based on high confidentiality makes it difficult for me to be specific. However, in generic terms, there was a CEO that was brought out here to run an Internet company. Typically Internet salaries are two – three hundred thousand dollars plus stock options. This individual will make one million dollars in his first year and was given close to a three million-dollar forgivable loan to buy a home. How about that? At some level that compensation package was driven by housing. We have seen in multiple cases that part of an Executive’s compensation package will include very large forgivable loans to make up for the difference in housing prices: in excess of a half million dollars in some cases.

Eunice Azzani

As an executive recruiter I look at the issue of housing on two levels. Not only is the cost significant, but one of the biggest challenges is that people may be able to buy some very high priced housing but they are not able to find it. This has been a phenomenon over the last year especially, and it’s increasing. We have senior people coming into the Bay Area who are spending 18 months to 2 years looking for appropriate housing. So I think we’re dealing with an issue that is more complex than just money.

The third leg of that stool is the idea of the brain drain, where some people are saying, “You know, I can go elsewhere in the country and be just as stimulated, have just as great an opportunity, and also have a little more space, a little more opportunity to park, a little more opportunity to do other things in terms of quality of life. When the San Francisco Chamber visited Austin this year, we found a lot of people from the Bay Area. For me, that was an interesting phenomenon. Their housing is much lower; you can get a lot more for a lot less. I think we may start to experience a brain drain.

We’re going to be challenged by what kind of creative, innovative ways we can come up with to house people. I think the virtual community is helping us because people can get farther and farther away from the metropolitan areas and still be part of the fabric of what’s happening. That’s a plus, but we’re still going to have to figure out live-work issues and expand the availability of housing. The cost is

“We may start to experience a brain drain.”

-Eunice Azzani

going to continue to be challenging, because how you manage that and how you grow smart is a delicate dance between capitalism and some of the frustration that we have in the City around rent control. From the standpoint of recruiting talent from outside the area—those are key challenges.

The thing that many of us that are working to recruit talent to the Bay Area do is look locally first, because we know the relocation issues are so strong. We’re much more sensitive to looking for the talent first where it’s easier to make those moves. That’s another reason why you’re also seeing people moving quickly from company to company, place to place.

Randolph

When you talk to candidates, what kind of reactions or concerns do you get? Have you lost a significant number of good candidates because of housing-related issues and are you seeing any trend.

Azzani

We lose maybe 25%. Is the trend increasing of losing people from outside the area? Probably. It’s pushing upward because most people are savvy that we have the highest cost of housing. They read the newspapers, they see what’s going on. So a lot of people won’t even talk to you about that kind of a move, because they know that they currently have things they just can’t replicate here.

The good news is people are still fascinated by the fact that we have a very dynamic economy. They think everything is going to be invented here in terms of the Internet and e-commerce, so there is still a magical draw. I think also we're a little harder on ourselves here because we see the issues. People from the outside still are enamored with San Francisco, so that trend is moving upward but not as

fast as you might think. But people are also asking "Are we going to take our family and put it into this situation? Into smaller housing, no parking and tough transportation?"

From a workforce development standpoint, everybody's challenged by human capital right now. They can't get enough and it is affecting every level. People are willing to live in apartments if

they don't have families or kids in schools. So it really depends on where they are in their career track and in their life. But yes, it's going to be harder and harder for middle management folks to move into the Bay Area from outside the area, because it's very costly.◆

ASSEMBLY SELECT COMMITTEE ON JOBS-HOUSING BALANCE

Bay Area Council - Outline of Testimony

Findings

The Bay Area has today the worst jobs-housing imbalance ever in the region. Between 1995 and 1997 there was a 9.5% increase in jobs and a 1.3% increase in housing. In 1998 there were more than 70,000 jobs created and less than 30,000 housing units constructed.

A survey of the 109 counties and cities (with 50 reporting) regarding progress on their Fair Share Housing Needs allocations assigned a decade ago reveals that the lack of sufficient housing is regionwide and across all income categories, although most severe in large job centers and for lower income households. Not enough housing is being constructed overall, with the shortfall being the greatest at the lower end of the economic spectrum.

The lack of housing affordable to the workforce is greatly exacerbating the demand on transportation systems and adding to air pollution from vehicles.

The housing crisis is now perceived by CEOs and civic leaders in the Bay Area as a major threat to sustaining long-term economic prosperity.

A preliminary assessment of the acreage needed to accommodate housing to match population and job growth shows that there is sufficient land supply (without impacting wetlands, flood zones, sensitive habitat, or prime or unique farmlands). This preliminary "jobs-housing footprint" data does not yet reflect an evaluation of how much of the future housing need could be accommodated through infill, recycling of land, revitalization of poor and older neighborhoods, and transit villages.

Recommendations

Adopt in state law a "smart growth" (or "sustainable development" or "livable communities") policy and embed it in the California Environmental Quality Act (CEQA) to declare an environmentally preferred alternative statewide for growth that will become a rebuttable presumption in land use law and CEQA. At a minimum, a statewide "smart growth" policy should embrace the 3 Es of sustainable development—Economy, Environment, and Equity—and declare that it is the policy of the State of California to: (a) accommodate housing within each region to match population and job growth; (b) encourage efficient land use (which includes promoting strategies such as higher densities around transit hubs to establish transit villages, mixed-income and mixed-use projects, recycling of "brownfields" and "grayfields," and "smart" conversion of closed military bases); (c) protect vital and valuable ecosystems and natural habitats; (d) conserve natural resources and preserve environmental assets; (e) protect and conserve prime and unique farmlands; (f) invest in infrastructure to ensure mobility and quality of life; and (g) reduce poverty and promote greater equity.

Require all jurisdictions to designate in their general plans and zoning ordinances sufficient land to accommodate housing to match the projected population and job growth and to achieve a jobs-housing balance from 1995 forward (with both sufficient supply and appropriate affordability). Provide that a jurisdiction could meet this requirement by entering into a subregional agreement that achieves a jobs-housing balance within the subregion.

Require the Councils of Governments (COGs) to assign Fair Share Housing Needs based on the above principle.

Require Local Agency Formation Commissions (LAFCOs) to act in accordance with the above principle to ensure a jobs-housing balance. Consider empowering counties to submit a plan to LAFCO to achieve the jobs-housing balance if the cities within the county are not able to meet the requirement.

Enact legislation to reform construction defect tort liability as well as protect homebuyers.

Target transportation and other infrastructure financing to jurisdictions which are meeting or making good-faith progress towards their Fair Share Housing Needs allocation, with a priority on communities with projects that achieve more efficient land use as discussed above.

For employers located within a jurisdiction not able to meet the jobs-housing requirement, provide state tax incentives to grow, expand, or relocate within California where either (a) a significant portion of their workforce already resides and/or (b) within the current host region where housing affordable to the workforce is being accommodated.

Establish a program for attracting private investment to neighborhoods with concentrated and persistent poverty that will not displace current residents and businesses; develop the necessary legal mechanisms to facilitate partnerships between the local neighborhoods and the private sector.

Reform state-local fiscal relationships to encourage "smart growth" and efficient land use. Realign revenue with responsibility by redistributing property tax revenues to local jurisdictions based on meeting their Fair Share Housing Needs allocation (perhaps starting with the property tax increment).



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