DECISIONMAKING BY RESIDENTIAL DEVELOPERS IN SANTA CLARA COUNTY

PREPARED FOR THE NATIONAL SCIENCE FOUNDATION

E. S. ROLPH

R-1225-NSF
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PREFACE

This report is one of a series produced as part of the San Jose project of the Rand Urban Policy Analysis Program and supported by the National Science Foundation. In its first year the Rand program has consisted of three projects, each focused on a problem central to a specific urban area: on rapid growth and its control in San Jose; on adaptation to sharp recession in Seattle; and on decline of the central city in St. Louis. Future phases of the program will be concerned with bringing together the results of these three urban analyses and of other analyses to produce a set of statements about "national urban policy." The focus in the three initial cities, however, has been on the specific problems of the metropolitan areas with which the studies have been concerned.

The focus in San Jose and its metropolitan area (Santa Clara County) has been on the rapid growth that has characterized the area for twenty years—its causes and effects, and the policy potential for controlling the rate and pattern of growth in the future. Two specific issues formed the core of the analysis:

- The potential dilemma between what some people in the area perceived as its dependence on growth for private and public prosperity, and what others (including some of the same people) perceived as the undesirable effects of rapid growth in causing "urban sprawl" and other environmental deterioration.
- The effects of two decades of rapid growth on the relative status of the main minority population in the area—Mexican-Americans—versus the Anglo majority.

The summary findings on the two issues were:

- That the dilemma presented by the first issue is being resolved (1) by changes over time in economic and population growth—prosperity no longer depends on rapid growth, and the additional "sprawl" that can be expected from projected growth seems acceptable to most local residents; and (2) by local policy, which has begun to exert some control over sprawl, albeit within severe constraints imposed by outside forces, including federal and state policy.
- That two decades of rapid growth have improved the absolute income levels of the minority population, but have done little or nothing to improve the relative status of the minority as compared to the majority, and that this situation, rather than the control of growth, may be the major problem in San Jose's future.

These policy findings, more specific findings, and recommendations for local action are presented in D. Alesch and R. A. Levine, *Growth in San Jose: A Summary Policy Statement,* R-1235-NSF (May 1973).

This report presents a portion of the analysis of the process of residential development that is part of San Jose's dilemma of growth. Based on in-depth interviews with a sample of nine development firms representing a full range of both firm characteristics and residential project experience, this study was conducted to illuminate factors influencing developers' decisions to do business in Santa Clara County, factors determining the location of projects, and factors determining the kind of units chosen for development.

Other reports in the series are:

D. Alesch, *Local Government's Ability To Manage Growth in a Metropolitan Context,* The Rand Corporation, R-1224-NSF (forthcoming).

D. Alesch, J. Kirlin, M. Samulon, and D. Relles, *Mexican-Americans in Santa Clara County,* The Rand Corporation, R-1226-NSF (forthcoming).

F. Christen, *Citizen Preferences for Home, Neighborhood, and City in Santa Clara County,* The Rand Corporation, R-1227-NSF (forthcoming).

L. Dougharty, *Forces Shaping Urban Development: The Property Tax,* The Rand Corporation, P-5022 (forthcoming).

G. Payne, *Implications of Slower Growth for Santa Clara County,* The Rand Corporation, R-1166-NSF (forthcoming).

Rand Urban Policy Analysis Group, *Alternative Growth Strategies for San Jose: Initial Report of the Rand Urban Policy Analysis Project,* Preliminary Communication to the Client, October 1971.

R. Slitor, *Impact of Federal Tax Incentives on San Jose, St. Louis and Seattle,* an unpublished Rand document.

G. Sumner and A. Bonner, *Design for an Urban Services Resource/Cost Model,* The Rand Corporation, R-1245-NSF, June 1973.

SUMMARY

Because developer decisions clearly have a great influence on the spatial growth of an urban area, the following analysis of forces shaping those decisions was included as a major component in a Rand study of growth in Santa Clara County. Our analysis is based on in-depth interviews with a sample of nine development firms representing a full range of both firm characteristics and residential project experience. The interview schedule was designed to illuminate those factors influencing developers' decisions to do business in Santa Clara County, factors determining the location of projects, and factors determining the kind of units chosen for development.

The analysis has led to the following general conclusions:

- A large portion of a residential developer's development choices can be traced to the history, size, and organization of his firm.
- Local government has some potentially effective policy tools at its disposal for shaping growth, including its general attitude toward growth, its zoning powers, and its control over pricing of critical utilities and their extensions.
- Government programs facilitating low-cost and mid-density housing are less effective than they might be because most developers are anxious to avoid the protracted delays and uncertainties inherent in application and negotiation processes with government agencies, and therefore avoid taking advantage of such programs.

The findings drawn from our interviews are as follows:

1. Small, entrepreneurial firms are apparently attracted by the speculative, rapid growth potential of an area in the early growth period. Their decisions to do business in an area are based primarily on intuition, "advice" from local contacts (primarily government officials), and the reputation of local officials for supporting growth activities. Once established, with experience in a particular kind of residential unit and particular price range, such firms are unlikely to experiment with new kinds of projects.
2. Large corporate builders (including diversified corporations that decide to buy up successful local firms) appear to be attracted by the more stable and diversified economy of the later stage of urban growth. Their decisions to locate appear to be based on favorable market analyses of the area, and they invest in

the full range of possible projects and price categories—again with market analysis, not "experience," determining their emphasis.

3. A small set of factors external to the size and history of the firm also has significant influence on where and what kind of units a developer builds. Proximity to employment measured in commuting time, and the availability and cost of utility hookup to the developer are two key factors influencing location. The location of the project (neighborhood reputation and price of surrounding housing), in turn, influences the builder's choice of residential units. Most private and corporate developers appear to be increasingly reluctant to sponsor projects requiring any extraordinary dealings with either the local or federal government (e.g., FHA, subsidized housing, Planned Unit Developments*), because they lead to unpredictable and possibly costly project delays.
4. Conversely, the analysis indicates that property tax rates and tax policy generally have little or no influence on developer decisions regarding residential units the developer plans to sell immediately.

These findings have certain implications for the policymaker. They demonstrate that he has some ability to influence patterns of growth in his jurisdiction and that he already has many effective tools at his disposal. They also indicate that in order to be effective, programs designed to encourage certain kinds of land use or building patterns must be relatively self-administering and free of red tape.

* Planned Unit Developments (PUD) allow the builder to reduce his unit lot size and thus increase the project density in return for providing common project amenities in the form of facilities or improved design. Acceptable trade-offs are negotiated with local Planning Departments.

ACKNOWLEDGMENTS

The author is indebted to J. J. Kirlin for his help in developing the interview schedule and to Betsy Schmidt for conducting several of the interviews. Comments and suggestions from J. P. Acton, B. D. Bradley, D. J. Alesch, and R. A. Levine were very helpful in improving the text. And special appreciation is due the developers themselves, who were exceedingly generous with their time and experience, and to James O'Brien, Executive Secretary of the Builders Association of Santa Clara and Santa Cruz Counties, who put us in touch with such cooperative respondents.

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I. INTRODUCTION

Growth, once the avowed policy objective of virtually all public officials, has in recent years become an issue of increasing controversy. Many citizens' groups argue that growth adversely affects the quality of life in their communities, and city administrators are beginning to accumulate evidence that growth can incur costs that exceed the revenues it generates. On the other hand, businessmen, organized labor, and other citizens' groups continue to maintain that growth is essential to the economic well-being of a community, and that economic well-being is a first priority. Caught between these opposing forces, local policymakers are increasingly interested in analyses to help them weigh the necessity of taking action to pace the growth rates of their areas and to evaluate the variety of tools at their disposal for shaping the patterns of spatial growth and development.

The Rand Urban Policy Program's in-depth study of the City of San Jose and Santa Clara County offered an excellent opportunity to begin a systematic analysis of the "growth phenomenon," its impact on the quality of life, and the economic dependence of the community on growth. The Northern Santa Clara Valley—once the most productive agricultural valley in California—has experienced the typical postwar suburban development boom in the extreme. The population of the county has jumped from 290,000 to 1,000,000 in the last two decades. Due to the influx of high technology industries, a highly educated labor force predominates. And like most new suburban areas, it is sprawling and undistinguished in its development pattern. Moreover, local government appears to lack any control over either the rate or the pattern of its growth. These characteristics parallel those of most postwar suburban development, and while it is risky, at best, to draw strong conclusions from one case history, the San Jose analysis, in combination with follow-on work in some other metropolitan areas, should lead to valid and useful generalizations regarding the rate and patterns of growth in metropolitan areas.

Eight separate studies comprise the program's analysis of growth in San Jose. These studies address themselves to the three major questions:

1. Is continued growth essential to the economic well-being of the area?[1]
2. Is growth really destroying the quality of life?[2]

[1] G. Payne, *Implications of Slower Growth for Santa Clara County,* The Rand Corporation, R-1166-NSF (forthcoming).

[2] F. Christen, *Citizen Preferences for Home, Neighborhood, and City in Santa Clara County,* The Rand Corporation, R-1227-NSF (forthcoming); P. Jordan, *The Impact of Growth on the Environment of San Jose,* an unpublished Rand document.

3. What steps can local government take to slow or direct growth?[3]

The eight analytical studies in combination then provide the basis for a summary report of the project's findings and recommendations for specific policy actions.[4]

In this report we first describe research identifying the forces that appear to influence residential developer decisions, and then discuss policy implications of the research findings. In addition to satisfying our intrinsic interest in the forces that shape developer decisions and thus help determine urban dimensions and character, the research was undertaken in support of question 3 above, with the view that one of the prerequisites for evaluating potential growth-shaping or growth-controlling policies is an understanding of developer incentives. If local governments are to be able to exert pressure on the development process, they must understand the incentives and constraints to which developers respond.

In an effort to keep the study manageable, the scope of the research is limited to the residential sector. Because the greatest quantity of urban land is developed to accommodate people (i.e., housing and public service facilities), as opposed to servicing the commercial and industrial sectors, an examination of the dynamics of residential development seemed to be the most fruitful analytical starting point.[5] Moreover, our focus is squarely on the developer and what influences his decisions. While zoning, tax policies, availability of utilities, etc., all have their impact on development, they are primarily important as an ingredient in the developer's (and ultimately consumer's) choice of where and what to build.

Although this report is intended strictly as an analysis of residential developer decision rules, leaving policy recommendations to be drawn from the array of project reports, it should, nonetheless, be of general interest to policymakers as well as to students of urban development.

[3] G. Sumner and A. Bonner, *Design for an Urban Services Resource/Cost Model,* The Rand Corporation, R-1245-NSF, June 1973; L. Dougharty, *Forces Shaping Urban Development: The Property Tax,* The Rand Corporation, P-5022 (forthcoming); R. Slitor, *Tax Effects on Urban Growth in Three Cities: San Jose, St. Louis, and Seattle,* an unpublished Rand document.

[4] D. Alesch and R. Levine, *Growth in San Jose: A Summary Policy Statement,* The Rand Corporation, R-1235-NSF, May 1973.

[5] A subsequent study (D. Holland and G. Wendel, *Development of Industrial Parks,* The Rand Corporation, R-1358-NSF, forthcoming), conducted under the auspices of the Rand Urban Policy program, continues the investigation by examining the land use dynamics of industrial development.

II. RESEARCH METHOD

An initial search of the literature revealed that little work has been done on modeling residential developers' decisionmaking. In fact, the only work bearing specifically on the question is a study of Greensboro, North Carolina, made at the University of North Carolina.[1] While their analysis was useful, it was done in a small, relatively static urban community, probably not typical of the nation's rapidly growing suburban areas. Moreover, the research was framed by micro-economic theory, biasing it against discovering the roles of a broad range of motivational forces in developer decisions.

INTERVIEW SCHEDULE

Given the dearth of behavioral research, we undertook our investigation with virtually no assumptions about what factors might play major roles in influencing developer decision. To develop some working hypotheses which could then be explored in more detail, our research design was based on a two-step, in-depth interview procedure. Under the auspices of Rand's San Jose Project, a small set of informal, open-ended interviews with developers, public officials, and local bankers were conducted by several Stanford Business School students to identify those factors that seemed to play an important role in shaping developer decisions and thus warranted further investigation.[2]

Using the results of these interviews and the few related studies reported in the literature, we developed a formal interview schedule to be administered to a small sample representing both the range of developer characteristics and of project characteristics.[3] To provide a concrete focus for the interviews and to elicit verifiable information, each developer was queried in depth about decisions bearing on a particular case-study development. In addition, to elicit critical motivating variables, the schedule included questions to identify changes that had occurred in development practices and to determine why they had occurred. This technique of comparing present behavior with behavior at the time the case study was being devel-

[1] Weiss, Smith, Kaiser, and Kerney, *Residential Developer Decisions: A Focused View of the Urban Growth Process*, Center for Urban and Regional Studies, University of North Carolina, 1966.

[2] This work was not published. It was, however, presented as seminar course work.

[3] See Appendix.

oped proved useful in assessing the impact of burgeoning "no-growth" and environmental pressures.

The interview schedule[4] had three major sections. The first asked for information about the developer and the history and specialties of his firm, so that we could determine the influence of these characteristics on his decisions. The second section probed those factors leading to the three key construction decisions for his case study: (1) the decision to compete in a given geographical area, (2) the choice of *kind* of project to build, and (3) the choice of *location* for the project. To permit more comparability among interviews than is possible with an open-ended interview schedule, in the final section of the schedule, developers were asked to rank the relative importance of several sets of factors to four development characteristics: (1) demand for, (2) pace, (3) location, and (4) kind. They were also asked to rank on a scale of 1 to 10 their agreement/disagreement with a variety of statements relating to public policy and the control of development.

In each case, the interviews were conducted with the top-ranking executive of the development firm, in some instances joined by other members of his staff. The interviewer followed the predeveloped interview schedule and, where necessary or useful, asked further questions. The rank order and agreement/disagreement segments were completed by the interviewee. The developers were exceedingly generous with their time, and the interviews typically lasted several hours.

THE SAMPLE

Because the interview schedules were comprehensive and time-consuming to administer, our sample had to be small. We therefore decided not to choose a random sample of developers, but to consciously select nine developers with one case-study project each to get representation of the possible *range* of types of developers and projects in Santa Clara County. In fact, our sample mix of developers and projects does generally reflect company and building patterns in the county.

An official count of the number of development firms operating in Santa Clara County has never been made; neither has a breakdown of the firms by characteristics—e.g., age, volume, kind of construction. However, a rough estimate by the executive director of the Builders Association of Santa Clara and Santa Cruz Counties gives the following breakdown for 1972.

	Small (0–50 units per year)	*Medium* (50–250 units per year)	*Large* (250–up units per year)
Percentage of total number of developers	25%	65%	10%
Portion of residential market	15%	45%	40%

Observers generally agree that these proportions have changed dramatically over the past 15 years, with the large developers increasing in number and getting a consistently greater share of the market.

[4] See Appendix for sample interview.

Building patterns have also changed over this period, with the most extreme shift being in the proportions of permits issued for the construction of single-family units vs. multiunit rentals and condominiums (see Table 1). In 1970, single-family detached units accounted for only 36 percent of the total permits issued, as compared with a 53-percent average for the decade. But at present, that balance appears to be shifting back in favor of the single-family detached unit.[5]

The distribution of housing by price has also fluctuated considerably, as illustrated in Fig. 1. (Data on pre-1966 construction are not available.) Inflation, reflected in an average 46-percent increase in square-foot costs for standardized home models between 1964 and 1970,[6] and market conditions contributed to the virtual extinction of the low-cost single-family detached unit. The vacuum in that price range has recently been filled by townhouses and condominiums, as evidenced by the fact that in 1969, townhouses were planned for only 24.4 percent of the lots subdivided, and in 1970 that number rose to 52.5 percent.[7]

Chosen to reflect this aggregate of development characteristics, our developer sample had the following distribution, as shown in Table 2.

Firm Size: Of our developer sample, three fall into the "medium" size category, with an annual volume of between 75 and 250 units. Four are "large" developers with an annual volume ranging from 250 to 500 units, and two are "very large," with volumes of between 500 and 800 units per year.[8]

Origin: Of the nine, four firms began in Santa Clara County in the mid-1950s as small, independent entities, and although they have grown, they have maintained their autonomy. These four all fall into the "medium" size category. Three more began in the same period, grew larger, and have, within the last three years, been bought up by national corporations. Two of the group, both falling into the "very large" category, are corporate imports. That is, they are Northern California branches of large, national development enterprises.

Experience: All developers interviewed concentrated on residential development, though four have done more than an occasional commercial or industrial project. Within the residential classification, the majority of projects for all interviewees have been single-family detached housing. However, one developer is now concentrating on apartment units while another is focusing on mid-density projects (i.e., townhouses, condominiums, etc.).

Price Range: One of the nine builds only low-cost subsidized housing, and none of the nine does custom building (typically $60,000 and up). Of the other eight, five usually build for the $25,000–$45,000 medium price range market. One builds for the higher price range market, and the two large corporate firms have projects in the low, medium, and high price categories. The case-study developments were selected to represent a spread of prices, sources of financing, and locations.

Price: One project is government subsidized. Two are low-price housing ($20,-

[5] See pp. 21-22. Our research indicates that the complex procedural requirements for multiunit projects are a strong deterrent to their development.

[6] Real Estate Research Council of Northern California as reported in *Joint Housing Element: 1971,* Santa Clara County Planning Department, San Jose, 1971, p. 23.

[7] Ibid, p. 12.

[8] Our sample included no developers who presently do an annual volume of under 75 units because these developers account for such a small share of the market. Several of the sample did begin as "small" developers or were small at the time they built the development used in our case study.

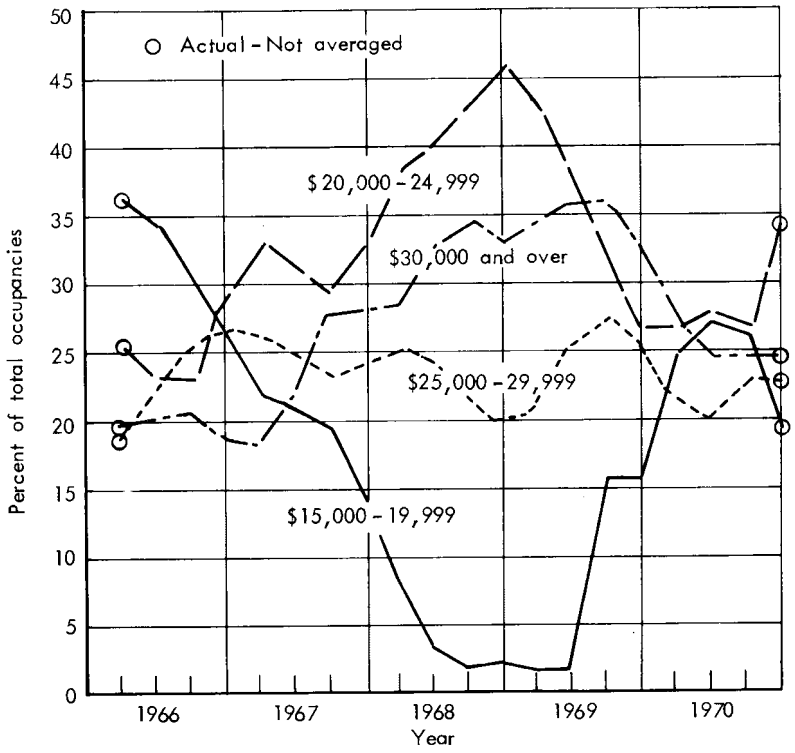
Table 1

NEW DWELLING UNITS AUTHORIZED BY BUILDING PERMITS, BY TYPE OF STRUCTURE
1969, 1970, DECADE 1960-1970
CITIES AND UNINCORPORATED AREA, SANTA CLARA COUNTY[a]

City	Total			1 Unit			2-4 Units			5 or More Units		
	1969	1970	Decade 1960-1970	1969	1970	Decade 1960-1970	1969	1970	Decade 1960-1970	1969	1970	Decade 1960-1970
Total, S.C. County	18,771	17,618	151,094	6,777	6,324	79,729	2,991	2,141	23,910	9,003	9,153	47,455
Campbell	68	231	3,828	4	0	1,545	26	56	1,582	38	175	701
Cupertino	983	441	4,942	264	177	2,486	90	26	930	629	238	1,526
Gilroy	136	256	1,261	49	65	798	14	38	208	73	153	255
Los Altos	136	84	2,028	136	71	1,529	--	2	209	--	11	290
Los Altos Hills	53	31	777	53	31	777	--	0	--	--	0	--
Los Gatos	436	137	4,190	68	46	2,165	44	60	556	324	31	1,469
Milpitas	327	906	5,014	314	686	4,105	8	147	788	5	73	121
Monte Sereno	21	25	252	21	25	252	--	0	--	--	0	--
Morgan Hill	61	47	540	36	35	334	12	12	152	13	0	54
Mountain View	1,562	1,220	12,453	9	99	1,339	89	114	1,714	1,464	1,007	9,400
Palo Alto	165	28	3,822	15	18	609	6	4	316	144	6	2,897
San Jose	9,409	9,516	73,877	4,852	4,088	48,098	2,475	1,489	11,192	2,082	3,939	14,587
Santa Clara	1,355	1,320	11,196	18	105	2,937	71	88	2,345	1,266	1,127	5,914
Saratoga	423	268	3,177	287	242	2,973	--	11	19	136	15	185
Sunnyvale	1,196	1,782	15,689	410	288	6,509	110	36	3,221	676	1,458	5,959
Unincorporated	2,440	1,326	8,048	241	348	3,273	46	58	678	2,153	920	4,097

SOURCE: Santa Clara County Planning Department, *Joint Housing Element: 1971*, San Jose, 1971.

[a]Compiled from summaries prepared monthly by local building departments as reported to the U. S. Bureau of the Census (or as later corrected).



Source: California Lands Investment Company and Harrington Housing

Fig. 1—Percentage distribution of new tract housing occupancies by price: Santa Clara County, 1966-1970 (9-month moving average)

000), and one is in the high price range (over $45,000). The remaining five are spread across the mid-price range.

Financing: All but three of the projects were financed with construction loans from conventional sources. The three exceptions were financed from corporate capital.

Location and Age: Of the nine projects, seven were selected from areas in and adjacent to San Jose, one was located in Cupertino, and one in Sunnyvale. Four were begun within the last four years, two in the mid-1960s, two in the early 1960s, and one in the late 1950s.

Kind of Housing: With the exception of one apartment complex, all of the case-study developments are single-family detached projects. But because several of the developers have had experience with Planned Unit Developments (PUDs)[9] and townhouse projects and our interview asked for information on them, we were able to gather good material on this category of residential housing as well.

[9] Planned Unit Development rules allow the builder to put housing units on less than minimum-sized lots, increasing the density, in return for certain stipulated design characteristics, amenities, and public lands. Unlike single-family detached units built on regulation-sized lots, PUD plans must be approved by local officials, and gaining approval normally requires lengthy negotiations on all aspects of the plan.

Our sample of nine provides a good cross section, both of developer and project characteristics. It does not, however, offer enough instances of most given characteristics to enable us to generalize with any certainty. Confident generalization would require that our findings be tested on a broader sample of residential developers.

Table 2

DEVELOPER AND PROJECT CHARACTERISTICS

	Developer								
Characteristic	1	2	3	4	5	6	7	8	9
Present volume	90-100 units/yr	100-400 units/yr	125-225 units/yr	400-500 units/yr	350-400 units/yr	500 units/yr	500 units/yr	650-850 units/yr	6-7 proj/yr
Year located in Santa Clara County	1957	1955	1954	1956	1954	1954	1962	1969	1961
Management	Owner managed	Owner managed	Owner managed	Bank/ owner partner-ship	Corporate acquired 1970	Corporate acquired 1970	Corporate origi-nated	Corporate origi-nated	Owner managed
Kind of housing	SFD[a]	1. SFD[a] 2. Com-mercial	SFD[a]	SFD[a]	1. SFD[a] 2. Some apt. 3. Mid-density 4. Com-mercial	1. SFD[a] 2. Mid-density 3. PUD[a]	1. SFD[a] 2. Apt.	Every-thing	1. SFD[a] 2. Apt. 3. Com-mercial
Price range	Medium[b]	Medium	Medium	Medium[b]	Medium	Medium and high	All	All	Subsidized
	Project								
Characteristic	1	2	3	4	5	6	7	8	9
Price	$18,000-38,000	$16,000-21,000	$25,000	$22,000	$29,000	$52,000	$22,000	$25,000	Subsidized
Location	West San Jose	West San Jose	Sunny-vale	Northeast San Jose	Southeast San Jose	Cupertino	East San Jose	East San Jose	Unincorpor-ated South-east San Jose
Years units marketed	1957-68	1960-62	1964-66	1962-69	1965-70	1972	1969-72	1971	1970-72
Kinds of units	SFD[a]	SFD[a]	SFD[a]	SFD[a]	SFD[a]	SFD[a]	SFD[a]	SFD[a]	Apartment
Source of financing[c]	External	External	External	External	External	Internal	External/ internal	Internal	External

[a]SFD = Single-family detached
PUD = Planned Unit Development

[b]These developers used to build lower cost ($20,000) units, but have shifted into the medium price market.

[c]Internal financing signifies capital came from within the company, while external indicates conventional external sources (banks, savings and loans) supplied it.

III. FORCES AFFECTING DEVELOPER DECISIONS: RESEARCH FINDINGS

This section reports the results of the developer interviews under the following topics: developers' assessment of the market for residential units, determinants of location, and determinants of the kind of housing built. The findings are drawn both from the interviews and from the developers' rank ordering of variables.

DEVELOPERS' ASSESSMENT OF THE MARKET FOR RESIDENTIAL UNITS

The second section of the interview schedule focused on identifying the characteristics the developer thought constituted a "good geographic market area," and on the basis of what and whose information he had concluded that Santa Clara County was and remains such an area.

Getting clear answers to this question proved to be difficult for two reasons. First, the developer generally made intuitive assessments of "market climate" and could not verbalize the critical factors. Second, once he had committed himself to Santa Clara County and established his business there, the developer was not inclined to move and, therefore, gave little thought to the changing quality of the market, providing he did not anticipate total disintegration. However, by asking the respondent to compare various locales within his market area and to cite other market areas in the country that had good potential, we were able to confirm some information only hinted at in the interview schedule.

Forces Attracting Early Development

Development firms attracted to the Santa Clara Valley during the early phase of its boom period were small and entrepreneurial, often partnerships formed by relatives or college classmates. Of our sample, seven fit into this category. One of the seven was attracted from a more remote rural area that had no apparent growth potential. Several came from San Francisco and Oakland, where the residential market was less speculative.

The two characteristics these developers consistently reported as making the Santa Clara area a very attractive market area for them were (1) the rapid economic

expansion taking place in the Valley and (2) its proximity to a larger, established metropolitan area (see Table 3). It is likely that although the promise of abundant in-migration rightly associated with the former led to a somewhat speculative market, proximity to larger, older urban areas with a long-term growth potential lent some stability to investments in the area. A third characteristic, climate, was mentioned by three of the seven as an important factor contributing to their assessment that the area indeed had a growth potential.

Table 3

DEVELOPER RANK ORDERING OF FACTORS ACCORDING TO THEIR ABILITY TO STIMULATE *DEMAND* FOR RESIDENTIAL DEVELOPMENT

	Developer									
Characteristic	1	2	3	4	5	6	7	8	9	Median
Good infrastructure	3	3	2	2	4	2	2.5	3.5	2.5	2.5
Proximity to large metropolitan community	1	5	1	2	2	1	1	2	1	1
Encouragement by public officials	2	3	4	2	-	3	-	3.5	2.5	3
Attractive, rural environment	4	3	3	4	3	4	2.5	1	5	3

Information obtained on the early role of public officials in encouraging growth and development in the area is ambiguous or contradictory. In the rank orderings, as shown in Tables 3 and 4, encouragement by public officials tended to be ranked low as a factor stimulating growth in an area. Yet, in the interview, four of the seven regarded it as important, and three referred specifically to such encouragement as leading to their decision to locate in Santa Clara County. The attitude of public officials would thus appear to be more important in determining the future of an area than the developers explicitly perceive.

A fifth characteristic, cheap land, was mentioned as important by only one of the developers. Since most of the early companies began with very little capital, the low cost of land in the Santa Clara Valley no doubt made it very attractive as compared with its more developed neighbors to the north. Perhaps the interviewees lumped "cheap land" into the overall factor of "rapid growth potential" and the speculative possibilities that implies.

Table 4

DEVELOPER RANK ORDERING OF FACTORS ACCORDING TO THEIR ABILITY TO *SPEED* THE PACE OF DEVELOPMENT

Characteristic	Developer									
	1	2	3	4	5	6	7	8	9	Median
Favorable interest rates	2	2.5	2	4	4	3	2	2.5	5.5	2.5
Encouragement by public officials	6	6	6	2	4	5	-	2.5	3.5	6
Available mortgage money	2	1	3	2	4	2	-	4.5	3.5	3
Good employment opportunities	5	2.5	1	2	1	1	1	1	1	1
Available capital	2	4	4	5	-	4	3	4.5	-	4
Encouraging market analysis	4	5	5	-	2	6	-	-	2	5

Forces Attracting Later Development

During the 1960s, the development business thrived as Santa Clara County grew, and many of the small companies referred to above expanded to annual volumes of 400 to 500 units. In turn, many of these now large developers were bought up by large corporate enterprises or conglomerates. At the same time, national giants, such as Levitt and Larwin, moved into the area. The small builder grown-large and the large corporate builder appear to want something of a different environment than did their predecessors. While both groups identify "growth" as the primary attractive factor, the large corporate newcomer prefers less speculative investment in an *established* region with a stable and already diverse economy. Rather than capitalizing on demand for housing created by booming population growth, the large builder seems to rely on his more sophisticated techniques of market analysis to identify markets for *new* products among the existing or more slowly growing population. Thus all of the new builders interviewed describe the growth potential or market for new residential units as still "strong" but *"different"* —that is, its strength lies in the product line of mid-density units for "shrinking" families.[1]

The large builder's preference for somewhat different growth characteristics is perhaps not surprising, since he needs a fairly large market to absorb his larger and more varied projects. Also, he is a corporate manager rather than a private entrepreneur, and perhaps less inclined toward risk. Moreover, he has the tools to identify and the flexibility to build for changing markets.

[1] "Shrinking family" is described as the aging family with most, or all, children moved out, and whose members no longer want heavy maintenance responsibilities.

The large latecomers seemed to differ from the early developers in another respect; that is, without ambiguity, they rated encouragement of growth by public officials as not being an important factor in attracting development. This assessment reinforces our above observation that economic indicators rather than intuitive feelings and hearsay play a greater role in the decisionmaking of the corporate firms.

Deterrent Forces

If these are the characteristics that have brought developers to the Santa Clara area, what factors might have deterred them or might now force them out? Surprisingly, while there was a measure of consensus on what characteristics attracted developers to the Valley and stimulated growth, there was virtually none in the rank ordering on what might do the opposite (see Table 5). This imbalance might be attributed to the developer's experience and basically "optimistic" frame of reference. He knows what brought him and, now that he is there, is reluctant to believe anything can really drive him out.

The interview responses were consistent with that interpretation in that all the builders described the Santa Clara market today as "good" or "excellent" and with a strong future. Yet, at other points in the interview, when pressed on how the climate for growth had changed and what impact the change might have on them, many builders expressed serious concern and several (five) indicated they were now exploring other market areas.

It appears that while the encouragement of growth by public officials is viewed as being only a mild stimulant to growth, opposition to growth or development by

Table 5

DEVELOPER RANK ORDERING OF FACTORS ACCORDING TO THEIR ABILITY TO *RETARD* THE PACE OF DEVELOPMENT

	Developer									
Characteristic	1	2	3	4	5	6	7	8	9	Median
Unfavorable interest rates	1.5	1	4	2	-	3	3	3	5.5	3
Uncooperative public officials	5	5	1	2	3	4	3	3	3.5	3
High mortgage money	1.5	2	3	2	-	2	3	5	-	3
Unemployment of 8%	3	3	5	5	2	-	3	1	1	3
Discouraging market analyses	4	4	6	-	3	5	-	-	2	5
Obstructionist citizens' groups	6	6	2	4	1	1	3	3	3.5	3

the same officials and by citizens' groups can be a strong deterrent.[2] Effective opposition most obviously comes in the form of utilities moritoria or very strict zoning codes backed by city councils unwilling to contemplate variances. But the builders described subtler characteristics such as red tape, over-regulation, the threat of public opposition, or simply the "reputation" of the council or community as dampening their interest in working in certain incorporated areas in the Valley.

Further questioning of those developers exploring opportunities in other geographic areas substantiated our major findings. The two areas receiving the most attention were Phoenix and Portland. Both were described as established urban centers with relatively diverse economies and with space and potential for economic growth; that is, not as saturated as California's three urban centers are thought to be. All five of the builders had explored and ruled out Portland, because "they were against growth." Phoenix was still being considered by all.

DETERMINANTS OF LOCATION

Manipulating the forces that govern developer decisions about location and choice of units can be, in many cases, a more feasible objective for the local policymaker than attempting to control the overall growth of his region. Moreover, many negative aspects of urban spatial growth could conceivably be mitigated if means were discovered to better direct that growth. Thus a major portion of our interview probed the importance of factors that might determine the location of development and the *kind* of housing built (single-family detached, PUD, apartment, high or low cost, etc.).

For analytical purposes, determinants of location and of kind of housing are treated separately, although such a separation does not realistically reflect the developer's decisionmaking process. Particularly in the fast-moving boom market of the Santa Clara Valley, the sequence of decisions leading to development is rarely fixed or linear. A developer might decide what project he wanted to build and then actively search out an appropriate parcel, or he might just as likely stumble on a "good land buy" and build according to the dictates of the parcel.

Property Tax Rate

Information from both the interviews and the rank-order questions gives a confusing and somewhat ambiguous picture of what factors prompt a builder to prefer one building site over another. In fact, as shown in Table 6, there appears to be a consensus on only two factors. The first is the property tax. The builders interviewed all maintain that the property tax has virtually no influence on where they undertake a development. They state that they no longer hold an inventory of land from which to draw at the time of development and that the Santa Clara County market is strong enough for them to maintain sales in areas with higher tax rates. Therefore, they maintain, the property tax is not an influence on their deci-

[2] The rank-order results tentatively pointed to this direction, and the interviews confirmed it, with five of the nine interviewees commenting on the deterrent role of either public officials or citizens' groups.

Table 6

DEVELOPER RANK ORDERING OF FACTORS ACCORDING TO THEIR IMPORTANCE IN DETERMINING *WHERE* RESIDENTIAL DEVELOPMENT WILL OCCUR

	Developer									
Characteristic	1	2	3	4	5	6	7	8	9	Median
Cost of raw land	9	4	2	1	1	-	5	5	1	4
Good road access	7	2	8	5	5	6	2.5	5	2	5
Cooperation from public officials	5	-	9	2	-	7	5	7	5	7
Property tax rates	8	-	7	8	-	9	-	5	9	9
Distance from urban center	2	-	6	7	5	4	1	7	5	5
Distance from employment	1	1	1	3	5	2	2.5	7	5	2.5
Rural character of land	6	-	4	9	5	8	-	2	9	8
Nearby amenities	4	3	5	4	-	5	-	2	9	5
Proximity to shopping	3	5	3	6	5	3	5	2	5	5
Other	-	-	-	-	2[a]	1[a]	-	-		

[a]Neighborhood

sions about where to locate developments. Data on the differential tax rate among municipalities in the county suggest that their indifference is genuine and *not* simply because the rates are similar in the various jurisdictions of the area. As shown in Fig. 2, there is substantial variation.

Proximity to Employment

The second factor on which there is consensus is proximity to employment. Seven of the nine builders noted that locating near employment was a prime consideration in choosing parcels for development. In the interviews, several builders cited the "central location"[3] of their more northernly case-study projects as critical to their success. Conversely, south San Jose was identified as a relatively poor location because it was "distant from most employment." The inference to be drawn, then, is that industrial location and the siting of transportation facilities are key factors in determining urban growth patterns.

[3] Defined as central to several major employment centers, *not* to a downtown business district!

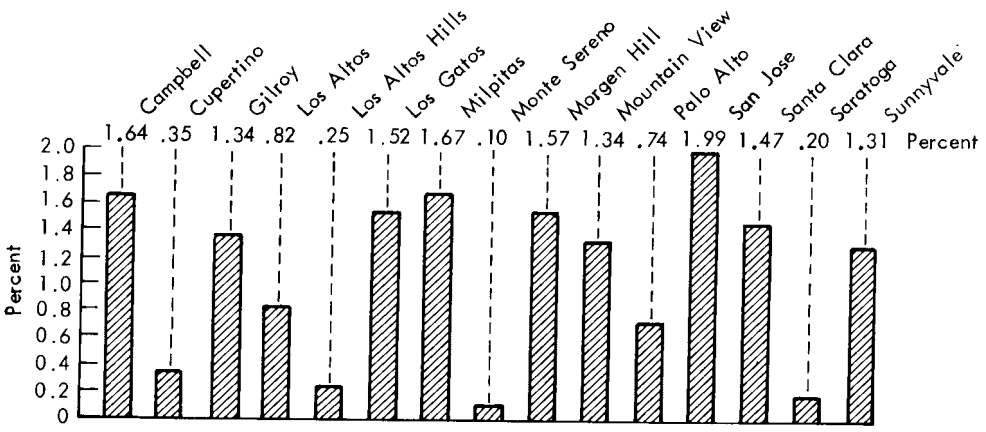


Fig. 2—Municipal property tax rates in Santa Clara County, 1970
Source: Santa Clara County Planning Department, Research Division; effective tax rate calculated by dividing total revenue from levied tax by total equalized assessed full value.

Neighborhood Reputation

While the interview schedule did not specifically probe the importance of neighborhood reputation, that factor emerged as important to the location decisionmaking of several developers, both in general conversation and in the case-study descriptions. The developer's definition of neighborhood seems to apply to very broad areas (for instance, the east side or the west side of the Santa Clara Valley, as opposed to individual communities like Evergreen), and it is important in two contexts. First, neighborhood reputation is perceived as having a major influence on sales potential. Thus, San Jose's East Side, an area with perfectly acceptable building characteristics (i.e., flat, near transportation and employment, etc.), but with a "bad reputation," has not been developed at nearly the rate of the West Side.[4] Second, "neighborhood reputation" is important in that, once established, it determines the general price range of housing in an area. And if a builder builds in a specific price range, he then must locate in a compatible area.[5]

Price

The price of land appears to have less influence on location decisions today than it did when the market was more speculative. In the rank-order question, the *older* builders generally ranked land cost as an important determinant of location, and

[4] Developers were at a loss to explain how the East Side came by its "bad reputation." They seem to feel that perhaps it sprung from a combination of factors: (1) it was the site of the *old* city, and therefore associated with "old," as well as with a substantial Chicano population; (2) one of the first big low-cost developments was located on the East Side; the houses were small and the construction was poor, resulting in rapid deterioration and resale to minority groups.

[5] There are apparently two specific rules of thumb that indicate location is determined by neighborhood: (1) build *near* other developments to maximize the number of people who will view the models, and (2) *do not* build in a price range that lies at either end of the general neighborhood range.

only in the project case studies of the late 1950s and early 1960s were "good land deals" (usually involving leapfrogging) cited as a key component in the success of the project. Even some of these older builders reversed themselves during the interviews by saying that they are now interested in low-risk, blue chip locations, and all they ask is that the parcel price be "reasonable" (generally consistent with market value and compatible with the price range of the units they plan to build).

Proximity to Amenities

The builders differed widely in the importance they attributed to building near a variety of services and amenities (transportation corridors, recreation facilities, shopping, or urban centers). Thus no conclusions can be drawn regarding the importance of such services in shaping urban spatial development except, perhaps, that to the degree the transportation network brings one "near employment opportunities," it is important in the development process.

Utilities

A final factor warranting consideration as a prime determinant of the location of residential development is the availability of utilities. Since all developments of the nature and size we are considering require public utilities, the way in which services are extended can be a key determinant of spatial growth. San Jose's policies regarding service extensions are examples of just how effective such tools can be. During the early boom period, San Jose had a very aggressive growth policy, and one objective was to annex as much land as possible. Annexing "leapfrogged developments" was particularly desirable, because it brought the land between the city and the development within the city's sphere as well. The problem with leapfrogging, on the other hand, was the disproportionate cost of providing services.

In the early 1960s, A. P. "Dutch" Hamann, San Jose's city manager, pioneered techniques for financing both sewerage (public) and water (private)—extensions that made leapfrogging economically feasible and, in turn, profoundly affected the future shape and density of the San Jose area. To finance sewerage, San Jose charged a standard hookup fee per residential unit *regardless* of lot locations or proximity to existing utility lines. The fees were set at a level that generated enough extra revenue from close-in hookups to adequately subsidize facilities for distant areas. It was also through Hamann's good offices that "Special Facilities Arrangements" were developed to provide initial capital and reduce the investment risks (in case the development did not succeed) for private utilities. Under these arrangements, the developer would advance the utility a large sum (usually several hundred thousand dollars) to pay for the facilities required to extend service to the remote development. As homes were sold and customers hooked up, the utility would then reimburse the developer.

In an effort to reverse the spatial growth pattern of the early 1960s, and to confine development to land within the immediate San Jose area, the city now requires developers to pay the sewerage hookup fee and *also* to bear the costs of extending trunk lines or providing feeder hookups of more than about 2000 feet. This policy and fee schedule was adopted in 1969 and appears to have curtailed leapfrog development around the city perimeter.

DETERMINANTS OF KIND OF HOUSING

How residential growth affects the character of a community, and the environmental amenities enjoyed by its residents, depends in large measure on the kind of housing built. Thus a large section of our interview was devoted to identifying factors that influenced decisions in that area.[6] We paid particular attention to how developers were responding to present government programs and tax policies, as a measure of which incentives might be effective and which would not. We also explored the possibility that financing institutions might influence residential investment through lending policies that favored certain kinds of development.

While the developers describe themselves as responding to external market forces, it was apparent from the results of the interviews that several "internal" or firm-related factors were just as critical in determining what kinds of projects a firm would invest in. The important variables appear to be (1) perception of market, (2) firm size, (3) source of financing, and (4) firm experience. They are all clearly associated with project decisions. However, common sense indicates that the variables interact with each other as well, and at this point our information is not sufficient to establish a clear chain of causal relationships leading to the final choice of project.

Market

To a man, the developers believe that consumer demand is the primary determinant of the kind of housing they build. They also believe that if economic constraints could be set aside, the market would call almost exclusively for single-family detached units. However, three of the nine builders have major commitments to townhouse and condominium projects, and two others describe the market for this type of housing as good. All five attribute the demand for these units primarily to the fact that the single-family detached unit is now beyond the budgets of many families. In addition, the three builders doing the projects attribute part of their success to the "shrinking family" phenomenon.

How demand is assessed varies from firm to firm. The larger corporate affiliates use formal market research analyses, in addition to "managerial intuition," with the result that they operate on the basis of a few general market assumptions ("people prefer single-family detached units"), but are willing to branch into new kinds of projects if their analyses identify a clear demand. Thus only the larger firms in our sample (those with market research capability) have gone into mid-density housing.[7] Smaller and older firms, on the other hand, base their market assessment on "managerial intuition," and in practice this means developing one product line and expanding or curtailing production of that item, depending on how they gauge that year's demand.

Firm Size

Firm size and volume can also affect the builder's choice of project in that these factors may determine the price range in which he can compete. Economies of scale

[6] Table 7 shows some of the results.

[7] Discounting one builder in the sample specializing in subsidized apartments.

Table 7

DEVELOPER RANK ORDERING OF FACTORS ACCORDING TO THEIR IMPORTANCE IN DETERMINING WHAT *KIND* OF DEVELOPMENT WILL OCCUR

Characteristic	Developer									
	1	2	3	4	5	6	7	8	9	Median
Developer's estimate of market	2	1	1	1	1	1	1	1	1	1
Mortgage	4	2.5	2	2	-	3	-	-	5.5	3
Preferences of lending institutions	3	2.5	3	4	-	2	2	2	3	3
Government subsidy or insurance programs	-	-	4	3	-	4	-	-	3	5.5
Tax policies	-	-	5	5	-	5	-	-	5.5	5.5

gained by high-volume construction and rapid turnover now give large firms an edge in the low price range, and smaller builders will no longer compete in this area.[8] Moreover, the larger firms seem much less reluctant to diversify their projects across the price spectrum and across kinds of residential units. They describe it as a hedging posture that allows them to expand quickly in a price range or kind of unit if the market seems to call for such a shift.

Financing

It would also appear that the *source* of financing (whether it is available internally through the corporation or only externally through normal bank or savings and loan channels) plays a role in a firm's willingness to diversify across *kinds* of units (see Table 2). Of the four builders in our sample with corporate affiliation, three get their financing internally, and those three build in all kinds of units (SFD, PUD, townhouses, and some apartments). The fourth builder, who gets his financing largely through regular bank channels, builds some apartments, but concentrates primarily on single-family detached units. While this apparent relationship between kind of housing and source of financing may be coincidental, it may well point to a subtle bias imposed on the builders by lending institutions that, according to several of our respondents, find single-family detached units the safest and most desirable nonsubsidized residential investment.[9]

To check the influence of lending institutions on developers' decisions more closely, we included a section on this topic in the interview schedule. When asked

[8] Large builders deny using anything like assembly line technique, but they say volume building develops faster work crews and reduces the overhead costs of model development, etc.

[9] According to our one builder in subsidized housing, while not a good "money-maker," that product is the safest investment in housing and, therefore, easy to get financed.

if the preferences of lending institutions influenced *their* choice of projects, the builders responded unanimously "no," generally citing their reputation and "good relationship" with the institution as reasons why financing was not a problem for them. When asked if such preferences might influence other builders, all agreed that "possibly," "probably," or "sometimes" they did, and generally in the direction of single-family detached units (and in periods of glut, very specifically away from townhouses and apartments). Thus the evidence regarding the impact of financing and lending institutions is somewhat conflicting. The developers *perceive* themselves immune from such influences, yet the empirical evidence (the fact that *all* builders in our sample who depend on external financing build only single-family detached residential units) suggests that lending policies may indeed be important in determining a builder's project choice.

Firm Experience

A fourth factor, firm experience, also seems to play some role in the developer's choice of projects. Six of the seven developers who were small and had begun work in the Valley by the early sixties still specialize in the medium price range, and four of the seven still build single-family detached units. According to one respondent, this relationship is not at all coincidental. He described a firm's experience in building and, more particularly, in marketing in a given price range (and by inference to a given class or customer subgroup) as crucial to its success. The same builder went on to explain that he and his colleagues were all in the "medium" price range because those projects could be smaller and thereby required less capital. Hence, it was where they all had to begin. Another developer voluntarily[10] ranked a firm's experience in a "product line" as the most important determinant of the kind of project it would opt for in the future. By sharp contrast to these seven, the two large corporate latecomers operate in *all* price ranges, though one of the two still specializes in single-family detached units.

Given the bias that the experience and the size factors seem to create against production of housing in the lower price range, it is perhaps not surprising that there is a shortage in that range.[11]

Location

To move to the impact of non-firm-related factors on the kind of housing produced, the location of the development influences developer choices just as project choices influence location decisions. As mentioned earlier, a developer wants to be in the middle of a neighborhood price range. Therefore, prior development in an area will influence the price range of his project. More recently, location has proved important in two other respects. First, seven of the nine developers describe themselves as now beginning to tailor their development plans to existing zoning restrictions to avoid the increasingly difficult and more formalized procedures for getting

[10] He volunteered this factor in the rank-ordering section under "Other."

[11] As was demonstrated by the Santa Clara County Planning Department in *Joint Housing Element: 1971.*

a zoning change. Moreover, several interviewees also noted that in certain areas or towns, they studiously avoid any projects calling for greater than R-1 single-family detached-unit densities to avoid any confrontations with local conservation and homeowners groups—both of which are increasingly sensitive to the density issue.

Tax Policies

One of our major study objectives was to ascertain the impacts of two federal housing programs—mortgage insurance and low-cost subsidies—and of government tax policies on developers' choices of location and kind of project. As noted above, the builders rank ordered property tax rates as the *least* important factor in determining their project locations (see Table 6). And, in response to interview questions, eight of the nine unequivocally affirmed that no federal, state, or local tax provisions influence their construction decisions. The ninth builder (not surprisingly, an entrepreneurial firm dominated by one man and specializing in subsidized housing with a large component of apartment projects) acknowledged that the depreciation and capital gains provisions of federal tax law did make apartments a more attractive investment for him. It seems clear from this evidence that tax policies do not influence the development decisions of firms concentrating on sales units, and that tax policies possibly do not influence the decisions of corporate organizations, no matter what their product specialty.[12] But verification of this latter hypothesis would require further exploration with a sample that includes a broader range of apartment case studies.

FHA Programs

Government housing programs likewise appear to be very limited in their impact. Of the nine case study projects, five were entirely approved by FHA, and some units in an additional two were approved. Those projects using little or no FHA support (four) were all built within the last seven years. Of all the builders, only one believed the program was crucial to the success of his case-study project, and *none* believed it would be important to a project begun today. Their consensus was that FHA programs played a vital role in revolutionizing housing financing procedures in the postwar period. But once banks realized that long-term mortgages were, in fact, very low risk loans, they began offering similar arrangements with similar terms. Presently, banks regularly match FHA rates without requiring project approval or other attendant red tape. Because of this, developers affirm that they are increasingly inclined to avoid the FHA mortgage insurance programs.

Something of the same fate has befallen federal low-cost housing programs as well. At one time or another, four of the nine developers used federal housing subsidy programs, but only one said that the program he used influenced his choice

[12] This hypothesis is tentatively offered because it is plausible to imagine that corporate structures are organized so as to concentrate attention on single and measurable objectives such as production and/or sales. Management is likewise organized to meet goals based on these objectives and does not retain the flexibility, nor the inclination, to base policy on tax considerations. (This is not to say, however, that many isolated year-end investment decisions are not made with some specific tax consideration in mind.)

of projects or its price range. For the majority, it simply constituted a bonus in an already profitable venture. Interestingly enough, however, only one of the four has continued using subsidy programs, and for his firm, it is their specialty. The other three (echoed by several others in the sample who had never worked on a subsidized project) described the endless negotiations and bureaucratic red tape required as imposing unacceptable financial risks on the developer[13] and being "simply too much of a hassle."

What emerged from our questions about the impact of government subsidy programs, then, is the fact that while many firms may initially be attracted by such programs, only a few decide to use them extensively (and again, one might suspect these firms would be highly entrepreneurial, personalized organizations—as our one example is). Once a firm decides to use the program, it learns to negotiate the bureaucracy and red tape quite skillfully, thereby cutting delays and concomitant risks to a low level. However, because most developers (to say nothing of "John Q. Citizen" for whom some of the FHA-Coop programs are designed) are scared off by red tape, the volume (and perhaps the quality) of subsidized projects is low.

Local Policy

In earlier sections, we noted that local officials (1) do, in fact, seem to affect an area's power to attract development, and hence its growth potential, by their general posture toward growth, and (2) do affect developers' locational decisions and urban growth patterns through service extension policies and their willingness to facilitate rezoning requests. It seems they are now beginning to have considerable influence over the kind of development a developer chooses as well.

Our respondents generally described their relationships with San Jose city officials during the earlier boom period as very good and very informal. Several cultivated close friendships with key members of the power structure and found the city particularly sensitive to their needs. *None* of the seven who were there in the early period described their development choices as being constrained or influenced by public officials.[14] However, as the public's attitude toward growth has hardened, and the growth-oriented power structure has lost more and more control, the working relationship between public official and developer has become formalized, and decisions are much less accommodating. As one developer ruefully noted, "You used to be able to go right to the top. Now we have to go through channels, and even when you get to the top, you can't trust the commitment." Another commented that "the bureaucracies are larger, the rules are more numerous, and there is no inclination to 'find a way' to do something." "Today," he said, "we have to do what there already is a way for."

The public's changing attitude toward growth as it is reflected in changing patterns of interaction between developers and public officials appears to be prompting some very conservative development decisions. In spite of public policies to permit and encourage Planned Unit Developments, five of the nine developers vowed they were either now committing themselves only reluctantly to an occasion-

[13] Delays reduce turnover time and therefore increase costs.

[14] There was no real evidence of conspiratorial favoritism toward these developers. They did well, but they worked the system hard, and it seems likely that anyone who asked for accommodation during this period received it—"to further growth."

IV. POLICY IMPLICATIONS

Taken together, the interview findings offer several interesting insights into the effectiveness of present and proposed policy measures.

- *Local officials and citizens can influence the rate and course of development in their jurisdictions: developers are responsive to the "growth climate" of regions and of municipalities. While regional growth appears to be substantially the product of state and federal policies, local policies can influence the impact of such policies on the local community.*

Developers appear to be quite responsive to the "growth climate" of a community, particularly when making their initial decision to locate, but also when deciding where to build. The local "growth climate" can be a result either of (1) public policies and the general posture of local officials alone or (2) of these in combination with citizen activity. As developer assessments of Phoenix and Portland clearly indicate, growth climate can be either supportive of growth and thus speed its pace, or hostile and thus slow its pace. However, it is also true that the growth climate of a region is the product of state and/or federal policies and largely beyond the control of local officials.[1]

- *Local officials can influence the rate and course of development in their jurisdictions: local officials already have an effective array of tools at their disposal for shaping growth. However, to say these tools are available is not to say they will be used.*

Local officials have a broad array of tools for determining where development will occur in their areas. They control zoning, essential utilities and rate structures, and to some degree, the transportation network. They also have the power to waive standard rules in order to accommodate unique residential projects that meet with their approval. Moreover, local officials have substantial influence in attracting and determining the location of federal construction programs (Army Corps of Engineers, Highways, etc.) for their areas.

But to say local officials already possess tools that will influence residential

[1] For a discussion of the impact of federal and state policies on growth in Santa Clara County see: G. Payne, *Implications of Slower Growth for Santa Clara County,* The Rand Corporation, R-1166-NSF (forthcoming), and D. Alesch, *Local Government's Ability To Manage Growth in a Metropolitan Context,* The Rand Corporation, R-1224-NSF (forthcoming).

development choices is not to say they can or do use them. First, there must be sufficient political support to allow the exercise of existing powers in the face of inevitably strong opposition from local development interests. Second, and equally or more important, policy objectives cannot be jeopardized by the use of such authority or it probably will not be used. For instance, a community in need of an expanded tax base is not likely to be too firm in pacing and directing its growth. Thus, to know what tools for controlling growth will in fact be *used effectively,* we must understand the constraints acting on *both* the developer and the public official.

- *Government programs to increase low-cost housing have been handicapped, because red tape deters the average developer or low-income group from participating.*

The incentives of the low-cost, government-subsidized housing market would appear to make it an extremely attractive investment alternative. According to most analyses, there is ample demand. Financing terms range up to 100 percent, loans are easy to get, and the investment is described by one developer as "the most secure option available." However, in spite of the economic incentives, developers are clearly reluctant to participate in government programs because of their complex and lengthy application and monitoring procedures.

Procedures that effectively screen out most of the potential developers of government-subsidized low-cost housing may not appear to be a policy failure if all the available funds are nonetheless distributed. However, a strong argument can be made that the resulting lack of competition for the available funds may be reducing both the quality and the innovativeness of the projects that are being built. Moreover, for those programs that are intended to be accessible to the low-income public (as opposed to builders), the ability to organize and to master complex procedures is likely to be inversely related to need for housing.

- *Government policies to encourage mid-density and unique residential development (in contrast to single-family detached) are failing because (1) developers perceive a general market preference for single-family detached housing, (2) increasingly lengthy negotiations with local officials prior to plan approvals cause developers unacceptable delay and uncertainty, and (3) public opposition to growth frequently takes the form of opposition to higher density developments.*

The developers appear to be uniformly persuaded that, all other things being equal, their buying public prefers single-family detached housing. Recent shifts to higher density townhouses, condominiums, and Planned Unit Developments have only been, according to our developers, to keep housing within economic reach of the market. For most of our developers, this assessment of the market is not based on any serious market research, but is nonetheless a firm belief that will continue to influence their development choices either until strong evidence is presented to the contrary, or until the incentives for higher density development more clearly overshadow the market attraction of single-family detached housing.

At the moment, the policy incentives, particularly those designed to encourage Planned Unit Developments, have increasingly little leverage. Initially, developers found PUDs an attractive option in the face of rising land and construction costs. They were able to reduce their land unit costs (and prices) by increasing the develop-

ment density beyond the maximum provided for by local law. In return, the developer provided some stipulated (negotiated with the local planning department) package of amenities. But developers have much the same reaction to local as they do to federal "red tape." It is time-consuming and it causes delays and uncertainties that they think threaten their profit margin. Thus, as the number of departments has increased, and as attention to detail has increased, the negotiations for plan approval have become protracted and developers are now simply beginning to avoid Planned Unit Developments.

Clearly, local officials must have some means of guaranteeing that the community benefits from relaxing its density requirements. However, if they consider the PUD an attractive development option, procedures and negotiating patterns for PUDs will have to be radically simplified, changed entirely, or a new set of incentives will have to be introduced.

The third deterrent to mid-density development is the increasing public opposition to growth manifested in well-organized homeowner associations. Because these groups are concerned about the increased burdens more people place on the city's ability to provide services, and on the environment, they are especially adamant against mid-density projects. Moreover, mid-density projects frequently give citizens an opportunity for *public* opposition, because they often require major zoning changes or other planning commission action. Again, developers, preferring to avoid the delays and adverse publicity, either opt for a less controversial kind of project, the single-family detached house, or work in a different area.

In fact, if there is a demand for more housing in an area, homeowner association and environmentalist opposition to mid-density development would not appear to be in their best interests, because in most respects such developments are easier to service and more consistent with environmental objectives than a similar number of units of single-family detached. Programs to provide more information to citizen groups on the cost and benefits of mid-density development, as well as *early* citizen involvement in plans for such projects, might well dampen public opposition.[2]

[2] This response obviously does not deal with the "enclave syndrome" where groups successfully oppose mid-density development and it goes "elsewhere." Here the original opposing community never really has to choose between mid-density and sprawl, nor does it bear the costs.

Appendix

INTERVIEW SCHEDULE

As part of its Urban Policy Analysis Project funded by the National Science Foundation and in cooperation with San Jose and Santa Clara County, Rand is examining urban land use and development patterns in some detail. To develop a model of the decisionmaking structure that governs residential growth, we are doing a case study of key residential developments in Santa Clara County over the past 15 years. As the tentative description is developed from Santa Clara County, we hope to then test it against activity in other cities in the nation.

The content of the individual interviews is strictly confidential, and without written permission to the contrary, material will only be used in aggregate form or contexts where it cannot be linked with a specific project or person.

ABOUT THE DEVELOPER

1. When _____* was under development, where was your firm located?

2. How old was your firm at that time?

3. What was the history of your firm?

4. How large was your operation at the time _____ was built? Today?

   a. Volume

   b. Number of regular, full-time employees

   c. Size of sales force

   d. Number and size of projects under development

*Signifies name of PROJECT case-study.

5. What kinds of development were you involved in besides residential? Commercial? Industrial? Rental/Residential? Today?

6. Describe the development chronology for _____ with specific dates, where possible, for major decision points (i.e., financing, purchase, zoning and/or incorporation, installation of major utilities, completion of project).

7. Is the above chronology fairly typical of the normal steps taken as a project moves to completion?

ABOUT DETERMINING THERE IS A MARKET

8. At the time you were considering _____, what were the general factors in Santa Clara County that led you to believe the market or demand for housing would make it a good investment (e.g., general boom climate, rapid population growth, evidence of expanding employment, cheap money to take advantage of, you were simply there and in business)?

9. Did you have access to any formal market analysis?

10. If so, whose? How good was it?

11. Did you have contacts or friends in business or government that were helpful in assessing the market?

12. Who was of particular help?

13. If you were a developer locating for the first time, would you again choose Santa Clara County? Why or why not? What other areas would you consider and why?

ABOUT DETERMINING WHAT *KIND* OF PROJECT TO BUILD

14. What kind of housing (its cost, whether it was single family or town-house or rental, whether it was a planned unit development or not) did _____provide? What factors prompted you to build that kind of a development?

15. At that time, was there a significant difference between the profit margins of a $20,000 v. a $30,000 v. a $40,000 house? How much?

16. What factors prompted you to develop units in _____'s price range?

17. Did you use any government programs for financing or mortgage guarantee? Which ones?

18. (If yes) without these programs, would you have built a different kind of project? If so, what kind?

19. Was Federal, State, or local tax policy a factor in choosing that kind of development? If so, why?

20. Would _____ be a good model for a project today? Why or why not? (Include evaluations of both the market and appropriate government policies and programs as they affect today's choices).

ABOUT GETTING FINANCING

21. How was _____ financed?

    a. Outside financing? If so, from whom?

    b. How much and what percent of the total investment?

    c. What were the terms (rates, payback period, etc.)?

22. Were the terms typical of that period?

23. Do the procedures for getting financing and the terms differ much from today's market? If so, how?

24. Are certain kinds of projects easier to get financing for than others?

25. Was that true when you were getting financing for _____? If so, did ease of financing influence your choice of kind of project significantly?

26. If so, what factors make financiers feel one kind of development is a better investment than another?

ABOUT CHOOSING A SITE AND ACQUIRING LAND

27. What were common sources of parcels when _____ was being developed? Farmers, land dealers?

28. From whom did you buy the land for _____? Was he a farmer or a land dealer?

29. How long had he owned it?

44. Which were least cooperative?

45. Have the procedures and relationships between the developer and government changed much since _____ was developed? If so, what are the changes and are they for the better or the worse?

ABOUT SALES AND PROFITABILITY

46. Did _____'s construction phase run smoothly? If not, what were the problems?

47. Were sales as rapid as anticipated? If not, why not?

48. Was it as profitable a venture as you had anticipated? What was your rate of return?

49. What are the key sources or prerequisites for profitability in this kind of project? Cheap land, short holding time for raw land, short construction period and rapid sales, etc.

50. Were there any surprises in _____? If so, what?

51. Did you learn anything that influenced your next project?

Please number the following according to their ability to stimulate growth in demand for residential development in an area.

Good infrastructure (roads, utilities, etc.)

Proximity to large metropolitan community

Encouragement by public officials

Attractive rural environment

Other (specify)

Please number the following according to their ability to speed the pace of residential development.

Favorable interest rates for financing

Encouragement by public officials

Availability of mortgage money

Growing employment opportunities in the area

Availability of capital

Market analyses predicting growth in demand

Other (specify)

Please number the following according to their ability to *retard* the pace of development.

Unfavorable interest rates

Uncooperative public officials

Citizen groups that interfere with zoning changes and the provision of utilities

Tight mortgage money

Unemployment of 8%

Market analyses that predict reduction in demand

Other (specify)

Please number the following factors according to their importance in determining *where* residential developments will occur.

Cost of raw land

Existing or promised freeway or major road access

Cooperation from public officials

Anticipated property tax rates

Distance from urban center

Distance from employment

Rural character of land

Nearby amenities (park, golf, mountains, etc.)

Proximity to a shopping area

Other (specify)

Please number the following factors according to their importance in determining the *kind* of development that will occur.

The developer's estimate of what people want

The mortgage market

Cost and ease of financing for developer

Government subsidies or guarantees

Tax incentives

Other (specify)

52. As we understand it, the attitude of this area toward growth and development has changed substantially over the past decade. How much of a change do you think there has actually been and what accounts for it?

53. What kind of a future do you *see* for this area?

54. Is that a future you would *choose* for it? If not, what would you like to see?

Please indicate the extent of your agreement with each statement by circling the appropriate value.

	Disagree strongly									Agree strongly
1. Local government should extend services wherever developers want to build.	1	2	3	4	5	6	7	8	9	10
2. Local government administrators should leave policy matters to elected officials.	1	2	3	4	5	6	7	8	9	10
3. In making governmental policies affecting development, those in the development business should have a major influence.	1	2	3	4	5	6	7	8	9	10
4. An important role of government is to facilitate profit-making by private firms.	1	2	3	4	5	6	7	8	9	10

	Disagree strongly									Agree strongly
5. It is important to encourage people who understand the problems of your business to run for office.	1	2	3	4	5	6	7	8	9	10
6. Local governmental officials should act strongly to protect the public interest in such areas as open space.	1	2	3	4	5	6	7	8	9	10
7. The fewer zoning regulations and such which a city has, the better development will progress.	1	2	3	4	5	6	7	8	9	10
8. The activities of uninformed citizens often overly complicate the job of developing an area.	1	2	3	4	5	6	7	8	9	10
9. If one city makes it too difficult to develop, there are other cities that are more reasonable.	1	2	3	4	5	6	7	8	9	10
10. All in all, local governmental officials have little effect upon how an area develops.	1	2	3	4	5	6	7	8	9	10

11. The most important "movers and shapers" in an area are always those businessmen with a vision of the area's future potential for growth.

1 2 3 4 5 6 7 8 9 10