

MERCED COUNTY UNIVERSITY COMMUNITY PLAN
POLICY DISCUSSION PAPER

Economic Development

For CPAC Discussion: April 12, 2001 Meeting

I. INTRODUCTION AND SETTING

This Report provides a preliminary set of goals, objectives, and policies for inclusion in the Economic Development Element of the Merced County University Community Plan. The Economic Development Element describes the set of economic goals and corresponding policies that will guide land use development in the University Community and its relationship to the region as a whole. Because of the cross-cutting nature of economic development, many of the policies described herein may overlap with other General Plan elements.

This Report is presented for discussion purposes only and will be updated and refined based on on-going analysis and stakeholder input. A brief discussion of the economic background and setting for the Economic Development Element is provided below. The following section provides specific goals, objectives, and policies for the University Community. A general discussion of the policy options is provided in Section III.

POLICY SETTING

UC Merced will potentially confer significant economic benefits to the University Community and the region as a whole. These economic benefits will be a function of both the scale and character of the campus activities as they emerge over time as well as the economic, institutional, and policy framework in which they occur. As has been the case with other UC campuses, the economic impacts will very likely take decades to unfold. Initially, the campus will be relatively small, with enrollments below 10,000 students during the first decade of operations. The campus size, its location within Merced County, and the larger economic forces affecting the San Joaquin Valley will tend to obscure its economic impacts. Over time, however, the campus will be a part of and will support larger changes in the San Joaquin Valley, a region that is expected to experience significant population and employment growth during the first part of the 21st Century.

Integration of the campus and the University Community into the larger fabric of Merced County will present a number of challenges and opportunities from market, financial, and land use policy perspectives. For example, the large amount of competitive real estate in the area will affect market conditions and absorption within

the University Community. In addition, the location of the campus may create development challenges and concerns regarding urban sprawl and environmentally related impacts. At the same time, the campus also has the potential to increase demand for a range of real estate products and development due to the activities and individuals it will attract.

ECONOMIC BACKGROUND

The presence of UC Merced and its growth over time will serve as an economic catalyst to both University Community and Merced County as a whole in two distinct ways, as described below.

- **Direct Economic Impact.** The direct expenditures by UC Merced students, faculty, staff, and their families, as well as the University itself will increase demand for goods and services throughout the County, leading to the creation and expansion of local businesses and a corresponding increase in County employment. In addition, the new employment and housing requirements generated by UC Merced will increase demand for both commercial and residential real estate in Merced County.
- **Indirect Economic Effect.** Over the long-term the University has the potential to have a transformative effect on the regional economy by fostering a business environment that is attractive to industries and sectors currently under-represented or non-existent. For example, the presence of a University will expand and diversify the local labor force and may attract entrepreneurs and/or spin-off businesses that benefit from proximity and accessibility to a premier research institution. Although difficult to quantify, this effect will serve as a major asset to the surrounding University Community, generating real estate demand that may have otherwise occurred elsewhere in the region or not at all.

Despite the potential growth inducing impacts described above, the development of the University Community will occur in an economic context that presents significant challenges. First, unlike the regions surrounding most of the other UC campuses, Merced County currently possess a relatively weak and undiversified economy. Based on a variety of economic indicators including unemployment, wages, personal income, and education levels, the County lags behind the State's average. In addition, there currently exists a very large supply of developable land that is designated for urban uses. This excess land capacity will provide a competitive backdrop to the University Community that may effect the pace and character of development.

II. GOALS AND POLICIES

This section outlines the over-arching goals, objectives, and associated policies that should be considered as part of the Economic Development Element. These strategies can help to ensure the academic, cultural, economic, and financial success of both the University and University Community.

Under each broad goal, several objectives have been identified and under each objective several policies have been recommended. Since some policies may advance several goals and objectives, they may be repeated in several locations. A discussion of the policies and their strengths and weaknesses is provided in the following "Policy Discussion" section.

GOAL 1: CREATE STRONG SENSE OF PLACE

University Community planning efforts should focus on creating a mix and scale of land uses that allow community residents to establish a strong sense of place. The University Community should foster an environment and culture that will attract high caliber students, faculty, and staff and that will enhance the overall educational, work, and living experience for all community members. The following objectives and associated policies will be instrumental to achieving this goal.

OBJECTIVE: MANAGE REGIONAL GROWTH

The large amount of regional land supply for a wide range of urban uses contrasted with a proportionally small annual land absorption suggests that land use policies established and enforced by Merced County and the City of Merced will be needed to direct growth to desired locations. Failure to achieve this will weaken the success of both existing developed areas (e.g. downtown Merced) as well as the University Community. Lack of such controls will also contribute to potential urban sprawl and premature conversion of agricultural lands from production. Special concern should be given to rural residential areas between the City of Merced and the University Community as this area will be particularly vulnerable to piecemeal development along major transportation corridors.

- **Policy:** Set aside land along major transportation corridors for development during subsequent phases.
- **Policy:** Enact land use controls that concentrate early phases of development near the campus.
- **Policy:** Enact land use controls that require development to be concentric.
- **Policy:** Retain experienced, high quality master developer.
- **Policy:** Prohibit drive up and drive-through facilities.

- **Policy:** Link development of adjacent rural residential areas into the Community Plan process.

OBJECTIVE: ESTABLISH TOWN CENTER AS VIBRANT ACTIVITY HUB

In order to create a strong community identity there must be a clearly identifiable center that serves as the heart of the “town-gown” environment. An important component to creating a vibrant town center is a district that is active and lively into the evening hours. Cafes, bookstores, and restaurants with extended hours draw students and professionals alike and offer a welcome setting for studying and socializing. To promote this environment, retail and entertainment establishments should be concentrated in one village center near the edge of the campus in the early phases of development. High density residential can also contribute to the success of these districts, providing a critical mass of foot traffic.

- **Policy:** Enact land use controls that concentrate early phases of development near the campus.
- **Policy:** Enact land use controls that require development to be concentric.
- **Policy:** Provide ample opportunities for mixed-use; require it in some areas.
- **Policy:** Retain experienced, high quality master developer.

OBJECTIVE: BLEND CAMPUS AND COMMUNITY USES

The campus will need to establish a "soft edge" with the surrounding community in order to create the intensity of uses, facilities, and interactions needed to create a successful new community. Fluidity between the campus and community will be especially important in the early phases of development to stimulate demand for commercial services.

- **Policy:** Enact land use controls that concentrate early phases of development near the campus.
- **Policy:** Limit maximum building size for non-grocery establishments to encourage local-serving commercial uses.
- **Policy:** Allow and/or require multi-family housing and other affordable options near campus, village centers, and other designated areas.
- **Policy:** Provide ample opportunities for mixed-use; require it in some areas.
- **Policy:** Retain experienced, high quality master developer.

OBJECTIVE: ESTABLISH QUALITY OF LIFE AMENITIES

The success of the University and the University Community will be determined by its ability to attract residents and businesses to the immediate area and to the County as a whole. In this context, the University itself is an amenity and every effort should be made to enhance the relationship between the campus and the wider Merced community. In addition, other amenities such as infrastructure, landscaping, cultural facilities, and recreational opportunities will be important components in establishing a high quality of life.

- **Policy:** Provide ample recreational amenities such as community centers, parks, open space and trails.
- **Policy:** Provide ample cultural facilities such as libraries and performing arts facilities.
- **Policy:** Provide quality primary and secondary educational facilities.
- **Policy:** Provide for attractive landscaping and art in public areas and right-of-way.

OBJECTIVE: PROVIDE CONVENIENT, ACCESSIBLE LIVING ENVIRONMENT

Due to its proximity to campus, the University Community will provide a convenient and accessible living environment for students, faculty, and staff. This proximity will reinforce community identity and enhance quality of life through short commuting times.

- **Policy:** Allow and/or require multi-family housing and other affordable options near campus, village centers, and other designated areas.
- **Policy:** Allow high density single family attached and detached housing throughout the University Community.
- **Policy:** Reserve land and development “pads” designated for uses that will be viable in later phases of development, such as a neighborhood commercial center or a business park or R&D uses.

GOAL 2: COMPLEMENT EXISTING DEVELOPED AREAS

The University Community should be conceived as a complementary part of the entire Merced County community and not as a separate entity. As such, development programming efforts should seek opportunities to strengthen existing neighborhoods and commercial areas rather than compete with and ultimately weaken them.

OBJECTIVE: ENCOURAGE LOCAL-SERVING COMMERCIAL USES

All efforts should be made to ensure that retail, entertainment, and business uses are oriented primarily to serving the campus and University Community. Specialty retail, service, and dining establishments can be blended with larger "chain" stores such as CVS, Barnes & Nobles, The Gap, etc but independent retailers and establishments should be at the core of the University Community.

- **Policy:** Identify appropriate commercial uses in planning ordinance.
- **Policy:** Limit maximum building size for non-grocery establishments.
- **Policy:** Enact standards that require parking to be located behind the commercial establishment.
- **Policy:** Limit set backs for commercial uses.
- **Policy:** Enact design standards for signs.

OBJECTIVE: LIMIT REGIONAL, "POWER-CENTER" DEVELOPMENT

Large strip development or "power centers" (typically 250,000 - 500,000 leasable square feet of national and regional anchor stores) should be discouraged in the University Community. This type of development may detract from existing or planned uses elsewhere in the County and region, may exacerbate traffic and parking problems, and will detract from the Community's image as pedestrian -friendly and neighborhood oriented.

- **Policy:** Identify appropriate neighborhood-serving commercial uses in planning ordinance.
- **Policy:** Limit maximum building size for non-grocery establishments.
- **Policy:** Enact standards that require parking to be located behind the commercial establishment.
- **Policy:** Limit set-backs for commercial uses.
- **Policy:** Enact design standards for signs.

GOAL 3: OFFER MIX OF HOUSING OPPORTUNITIES

In order to achieve social and economic vitality both now and in the future, the University Community should provide a wide range of housing product types at varied price points.

OBJECTIVE: PROVIDE AFFORDABLE HOUSING OPTIONS

Providing a range of affordable housing will be crucial to the long term success of both the University and the University Community. Although housing affordability is unlikely to be a problem in the early phases of development, housing values will escalate over time, potentially creating affordability problems for students similar to those that many university communities are experiencing today. In order to prevent a future crisis, steps should be taken through design and other regulatory requirements to ensure affordable housing options.

- **Policy:** Allow and/or require multi-family housing and other affordable options near campus, village centers, and other designated areas.
- **Policy:** Allow high density single family attached and detached housing throughout the University Community.
- **Policy:** Require minimum densities on specified single family lots.
- **Policy:** Require a percentage of units in single family subdivisions to be small (e.g. no more than 1100 square feet).
- **Policy:** Require a percentage of residences in single family subdivisions to include second units.
- **Policy:** Enact an inclusionary housing law requiring a percentage of new units to be affordable.
- **Policy:** Enact an in-lieu fee that can substitute for the direct construction of inclusionary affordable units.
- **Policy:** Enact a jobs/housing impact fee that requires new commercial developers to contribute to affordable housing fund.

OBJECTIVE: PROVIDE FLEXIBLE HOUSING OPPORTUNITIES

Artists, entrepreneurs, and other small business owners often need flexible work space and may find it efficient to combine their residences with their studios or offices. Providing flexible housing options fosters a dynamic social and economic environment that benefits the immediate community and the larger region.

- **Policy:** Permit live/work housing alternatives throughout the University Community.

OBJECTIVE: PROVIDE UP-SCALE HOUSING OPPORTUNITIES

In addition to smaller, more affordable units, the University should also provide high-end housing options that can meet demands of senior faculty and high-income professionals.

- **Policy:** Provide large single family lots.

GOAL 4: ENSURE FINANCIAL FEASIBILITY

Implementation of the Community Plan cannot occur unless the type, amount and location of planned land uses can be developed in a financially feasible manner. Specifically, the real estate value created must be sufficient to cover the costs of required infrastructure and public facilities, after accounting for risk and acceptable return on investment. This is especially important given the large supply of competitively zoned land that exists in the region.

OBJECTIVE: OPTIMIZE MARKET VALUE TO COST RELATIONSHIP

One of the most difficult challenges in developing a master planned community is balancing the need to provide high quality infrastructure and amenities with the need to reduce cost and maximize value. If excessive expenditures and land area are devoted to public amenities and infrastructure (e.g. schools, parks, roads, etc), the resulting real estate products may be too expensive to succeed in a competitive market environment. Conversely, if public amenities and infrastructure are sacrificed to reduce costs, the University Community may not be able to differentiate itself as a desirable, high quality environment, resulting in a decline in market value.

- **Policy:** Integrate financial analysis into the planning process.
- **Policy:** Solicit and incorporate input from private developers and property owners in planning process.
- **Policy:** Retain experienced, high quality master developer.
- **Policy:** Provide appropriate flexibility with regard to development timing, product type, and design.
- **Policy:** Allocate a “fair-share” of infrastructure costs to benefiting entities, including the UC and regional development.

OBJECTIVE: LEVERAGE PUBLIC FINANCING MECHANISMS & SOURCES

A variety of public financing mechanisms and funding sources will be required to pay for the public infrastructure improvements and amenities envisioned for the University Community. Careful planning will be required to ensure that the development, timing,

and coordination of all potential funding mechanism is implemented in a skillful and appropriate manner. In general, a comprehensive financing plan should include a mix of state, federal, regional, and private, land-based sources.

- **Policy:** Develop and implement a comprehensive financing plan.
- **Policy:** Pursue funding from “outside” sources, including State and federal government.
- **Policy:** Set up cooperative financing agreements with property owners, UC, and regional districts, entities, and/or participating developer(s).
- **Policy:** Allocate a “fair-share” of infrastructure costs to benefiting entities, including the UC and regional development.

OBJECTIVE: OPTIMIZE TIMING AND INCIDENCE OF COSTS

Although the precise development schedule of the University Community is uncertain, buildout is likely to take many years to achieve. As a result, financial feasibility will require that infrastructure investments be closely linked to income generating development both in terms of timing and land use. Specifically, infrastructure investments should be phased so that major costs coincide with the development of value generating uses. In addition, costs should be allocated so that, to the extent possible, those land uses capable of bearing the burden cover a relatively higher share of the costs.

- **Policy:** Reserve land and development “pads” designated for uses that will be viable in later phases of development, such as a neighborhood commercial center or a business park or R&D uses.
- **Policy:** Maximize the use of existing facilities in early years, such as schools and certain utilities, that defer major up-front expenditures.
- **Policy:** Encourage the development of “shared facilities” that serve both the University Community and the UC Campus.
- **Policy:** Support infrastructure solutions that allow for incremental investment rather than large up-front costs.
- **Policy:** Retain experienced, high quality master developer.
- **Policy:** Enact land use controls that require development to be concentric.

OBJECTIVE: REDUCE MARKET AND INSTITUTIONAL UNCERTAINTIES

Risk and uncertainty are key factors effecting the financial feasibility of the University Community. Currently, a variety of obstacles must be overcome prior to development,

including environmental mitigation, infrastructure costing and financing, land assembly, and even the precise location and development schedule of the campus. Early resolution to these uncertainties through regulatory approval, refined cost estimates, and formal commitments from the UC and other applicable entities will greatly increase the attractiveness of the project to potential developers. In addition, land use controls included in the master plan and enforced with development agreements or other mechanisms will also reduce risk and increase project feasibility.

- **Policy:** Utilize development agreements to codify the entitlement process and ensure development rights.
- **Policy:** Establish agreements and obtain necessary approvals with applicable regulatory agencies regarding the amount, type and location of allowable development.
- **Policy:** Given preference to infrastructure improvements that offer increased certainty with regard to cost and timing of development.

GOAL 5: SYNERGIZE UC CREATED ECONOMIC OPPORTUNITIES

The presence of the University will expand and diversify the local labor force and may attract entrepreneurs and spin-off businesses. The Campus Community should endeavor to foster the growth of economic clusters and accommodate new business ventures.

OBJECTIVE: FOSTER ENVIRONMENT FOR BUSINESS DEVELOPMENT

Although the development of high technology and R&D firms are unlikely in the early phases of development, over time conditions favorable to this type of business creation may emerge. Necessary pre-conditions such as a well-educated work force, supportive business environment and services (e.g. hotels, financial institutions, airport), and a critical mass of R&D activity and academic institutions may converge to give rise to new businesses and economic clustering. The University Community should provide real estate options appropriate for this type of business development.

- **Policy:** Permit live/work housing alternatives throughout the University Community.
- **Policy:** Foster production of business incubators and other types of flex space.
- **Policy:** Reserve land zoned for hotels and conference centers that can be developed in later phases.

OBJECTIVE: CAPTURE UC GENERATED BUSINESS VENTURES

Once new businesses are created in or attracted to the region, their real estate requirements will need to be accommodated. This trend should be planned for in advance and land appropriate for business park / R&D uses should be set aside. Locating business uses in the University Community will maintain synergistic momentum with the University and further the trend of attracting a high quality work force by offering short commuting distances and a high level of amenity.

- **Policy:** Reserve land zoned for business park or R&D uses that can be developed in later phases.
- **Policy:** Foster production of business incubators and other types of flex space.
- **Policy:** Reserve land zoned for hotels and conference centers that can be developed in later phases.

III. POLICY DISCUSSION

This section provides further discussion of selected policy options identified in the preceding section. For the most part, these policies can be used to accomplish more than one objective and are mutually reinforcing-- for example, policies that promote quality of life can also foster community identity and contribute to overall financial feasibility. In some cases, policy strengths and weaknesses are evident; in others the "unintended consequences" are less clear and further research may be required.

COMMUNITY DESIGN RELATED POLICIES

1. Concentrate early phases of development near the campus.

Concentrating development near the campus will help to establish community identity and create a vibrant town center. It will also allow for "piggy-backing" on University infrastructure, reducing development costs. Finally the areas near the campus are likely to be the most marketable as the majority of demand for housing and commercial services initially will be generated by students. This policy may potentially meet resistance from land owners interested in the early development of areas farther away from campus.

2. Require development to be concentric.

Requiring development to spread concentrically from the campus will promote strong village centers, reinforce community identity, and support efficient infrastructure development. Land owners with property outside of core areas may object to this policy because it will delay financial returns from development unless cooperative financial agreements are established.

3. Set aside land along major transportation corridors for development during subsequent phases.

This policy would ensure that development begins in the "core" of the University Community and would allow neighborhood-serving commercial establishments to take hold in the village centers. Delaying development along major corridors could help to prevent strip commercial development that otherwise might spring up quickly in the areas between the City of Merced and the University Community. This policy may meet resistance from land owners seeking to realize early financial returns by developing along heavily traveled corridors.

4. Provide ample opportunities for mixed-use; require it in some areas.

This policy will be integral to creating vibrant village centers, providing affordable housing options, constructing live-work opportunities, and offering lifestyle amenities such as walkable neighborhoods, reduced traffic, and short commuting times. Requiring mixed-use in some areas may deter potential builders unfamiliar with this product type and concerned about their viability in a market dominated by inexpensive single family units.

LAND USE RELATED POLICIES

5. Limit maximum building size for non-grocery establishments to encourage local-serving commercial uses.

In order to promote neighborhood serving commercial ventures and to avoid development of large destination retailers such as Home Depot, Wal-Mart, etc., the General Plan could limit the maximum building size for non-grocery establishments. The University Community should emphasize neighborhood serving uses in order avoid competing with other established areas in the City of Merced and in the County and to promote community identity and walkability.

6. Identify appropriate neighborhood-serving commercial uses in planning ordinance.

In order to ensure that commercial uses are primarily neighborhood-serving, the County may decide to specifically identify appropriate uses in the General Plan. The potential pitfall of this strategy, however, is that specified uses may not be or may cease to be in line with market demand and feasibility considerations. Trying to micro-manage commercial uses could likely meet with strong resistance from developers who prefer maximum flexibility with regard to tenanting strategy.

7. Prohibit drive up and drive-through facilities.

This policy will limit auto-oriented businesses that could detract from the pedestrian friendly and environmentally healthy atmosphere that is envisioned for the University Community. A potential drawback of this policy may be that it deters major chains (such as McDonald's) from locating in the University Community because they feel that drive-through service is integral to their business.

8. Require parking to be located behind commercial establishments.

This policy endeavors to promote a pedestrian friendly environment by avoiding large expanses of parking in front of commercial uses. It is possible that such a requirement would deter some chain retailers who have specific corporate requirements regarding the amount and location of parking. However, in recent years many national chains (such as Williams-Sonoma, The Gap, and the Pottery Barn) have shown interest in and have profited by locating in "Main Street" settings.

DEVELOPMENT STRATEGY RELATED POLICIES

9. Retain experienced, high quality master developer.

Most of the objectives articulated in the previous section can be furthered by the retention of an experienced and judicious master developer. A master developer can provide a single source for the coordination of development negotiations, site planning, phasing, and implementation. An established developer has the financial reserves to construct major infrastructure improvements and can provide the patient investment capital needed to undertake integrated, long-range planning and development. Finally a master developer can rely on extensive experience to shepherd the project to successful completion.

10. Foster production of business incubators and other types of flex space.

Through its land use policies, the County should support flexible office space that is appropriate for business incubators and other entrepreneurial activities in order to accommodate University generated spin-off ventures. In the short-term, incubator space is likely to be less viable.

11. Reserve land zoned for business park or R&D uses that can be developed in later phases.

Although in the early phases of development there is not likely to be demand for business park or R&D space, as the University matures it is expected to foster a business environment attractive to new industries and sectors. By reserving land to absorb future demand, the University Community can accommodate growth in a way that will energize and diversify the economic base of the area while simultaneously promoting lifestyle amenities such as short commuting distances.

Land owners may object to this policy, preferring instead to develop areas for uses that are profitable in the short-term, such as single family housing.

12. Reserve land zoned for hotels and conference centers that can be developed in later phases.

Although in the early phases of development there is not likely to be demand for hotels and conference centers, as the University matures it is expected to foster a business environment attractive to new industries and sectors. New businesses will need services, such as hotels and conference space, in order to grow and more mature businesses will want to see these facilities in place before they consider locating to the area. By reserving land to absorb future demand, the University Community can accommodate growth in a way that will energize and diversify the economic base of the area.

Again, property owners may object to this policy, preferring instead to develop areas for uses that are profitable in the short-term, such as single family housing.

13. Allocate a “fair-share” of infrastructure costs to benefiting entities, including the UC and regional development.

Developing cost sharing agreements with the UC and other entities that benefit from planned infrastructure improvements will clearly improve overall feasibility of development within the University Community. For example, property owners outside the Community Plan area may benefit from the major transportation facilities serving the Campus and University Community. In practice, however, it may be difficult to obtain financial commitments from property owners outside the University Community unless a regional nexus study is conducted and the County approves a regional infrastructure financing program (e.g. impact fees).

14. Set up cooperative financing agreements with property owners, UC, and regional districts, entities, and/or participating developer(s).

Without such agreements infrastructure improvements designed to serve the entire University Community, the campus, and beyond the will be more difficult to finance. However, since properties reserved for later phases of development may

not be willing to contribute early on, reimbursement mechanisms may need to be established. In general a master developer approach will facilitate a convergence of financial interest within the University Community and reduce potential “cost allocation” conflicts.

15. Utilize development agreements to codify the entitlement process and ensure development rights.

Development agreements provide developers with added certainty in the entitlement process and also provide flexibility with regard to project financing and land use requirements. Their primary disadvantage is that they are an inefficient mechanism for dealing with multiple developers and/or property owners.

RESIDENTIAL DEVELOPMENT RELATED POLICIES

16. Encourage live/work housing alternatives throughout the University Community.

This policy would allow for flexible housing options (particularly appropriate for artists and entrepreneurs) in order to foster a dynamic cultural, economic, and social environment. The marketability of these type of units in this environment may require further analysis.

17. Allow and/or require multi-family housing and other affordable options near campus, village centers, and other designated areas.

This policy aims to encourage housing options that are likely to remain affordable in areas that have access to employment, services, and transit.

18. Require minimum densities on specified single family lots.

Housing density will be an important issue in both the initial and more mature phases of development. In the early years, density will allow an efficient and cost-effective use of infrastructure and promote goals such as preserving open space and promoting walkability. As development matures, housing density will be critical to supporting transit systems as well as promoting housing availability and housing affordability.

Although the University Community should contain areas of higher density housing for the reasons discussed above, it is important that the General Plan remain as flexible as possible and support a variety of housing product types. There should be plenty of opportunity to develop housing on large lots in order to meet market demand for rural residential products.

19. Require a percentage of units in single family subdivisions to be small (e.g. no more than 1100 square feet).

This policy is intended to promote housing affordability by design and relies on the assumption that smaller houses will be more affordable. Requiring a percentage of homes in large subdivisions to be small, may promote neighborhoods that are affordable to a wider range of income groups and provides more affordable options through the University Community.

This program, however, does not guarantee housing affordability. New homes, regardless of size, can vary widely in price and over time housing prices of even small units may escalate beyond the means of moderate income households. This policy may also meet resistance from home builders who prefer for reasons of cost efficiency and perceived marketability to adhere to standardized lot and building sizes.

20. Require a percentage of residences in single family subdivisions to include second units.

This policy is intended to promote the availability of affordable rental stock and to ensure that rental options are available throughout the University Community. The inclusion of second units does not guarantee affordability, however, as rents will rise to the level that the market will bear. In addition, this policy may create financial feasibility mismatch in the early phases of development: if there is not yet a strong rental market, home builders will not be able to sell homes with second units at price points high enough to justify the extra development investment.

21. Enact an inclusionary housing law requiring a percentage of new units to be affordable.

In order to increase the supply of affordable housing, many communities have adopted inclusionary housing policies that require a percentage of units in large subdivisions to be permanently affordable through deed restrictions. This type of program could deter home builders from developing in the University Community because they do not want the burden of developing units that will sell at cost or potentially at a loss. In addition these programs require administrative work and compliance monitoring by the sponsoring jurisdiction and can generate added staff costs.

22. Enact an in-lieu fee that can substitute for the direct construction of inclusionary affordable units.

An alternative that is often paired with inclusionary housing requirements is the "in-lieu fee," i.e. the option of paying a fee to the City or County instead of developing affordable units directly. These fees fund the development of affordable housing by other, usually non-profit, entities.

Potentially, in lieu fees could deter some developers from working in the University Community because they may decide that the added cost makes housing development financially unattractive. On the other hand, some communities afraid of discouraging developers do not set the fee high enough to be able to meaningfully fund affordable housing development elsewhere.

23. Enact a jobs/housing impact fee that requires new commercial developers to contribute to affordable housing fund.

During the recent economic expansion, many communities felt a significant housing squeeze generated largely by rising employment and business creation trends. New jobs attracted many new employees but housing construction did not keep pace resulting in a jobs / housing imbalance in many California communities.

To counteract this effect and to plan ahead for housing problems that may one day surface in the University Community, the General Plan could call for a jobs / housing impact fee that would require new commercial real estate development to pay into a housing fund. Although this type of policy would allow the University Community to begin amassing funds for affordable housing, it may deter commercial development and negatively affect business location decisions. This is likely to be particularly true in the early years of development when market demand for commercial products is still weak.