

VII. ECONOMIC VITALITY

A. Diverse Economic Activities and Places

Economies are similar to living organisms; they need diversity, energy, balance, and connectivity in order to sustain their vitality and respond positively to inevitable change. The recession following the boom of the 1990s has left substantial amounts of Silicon Valley’s office and industrial space vacant, illustrating how traditional development patterns do not respect diversity, nor can they respond flexibly to market changes or sustain economies over the long term.

The Vision provides for a community where a diversity of businesses—both large and small—will thrive. This diversity will contribute to the overall economic health of the Valley by insulating the community from the ups and downs of economic cycles. It will also lower costs for property owners and renters by reducing infrastructure, energy, transportation, and perhaps even health care costs. Also, by creating an attractive and desirable place to live and work, the Vision will provide property owners with an opportunity to prosper through higher property values.

The following summarizes the myriad ways in which the Vision for Coyote Valley can lead to a new kind of place that sustains long-term economic vitality.

Shifting away from the development pattern of large office campuses geared to large single users, the Vision emphasizes economic diversity through mixed-use districts that allow for a broad range of small to large businesses across industry sectors. This approach harks back to the successful history of

Silicon Valley—a vibrant brew of technological innovation sparked in small spaces and then encouraged to grow into larger facilities within the same community. Today, as the “knowledge” economy that so famously underpins the region continues to evolve and invent new businesses, it is again experiencing this cycle. From bioscience start-ups, to growing media publishers, to wireless communications corporations, the key is to offer a range of building sizes and types that will accommodate companies in different stages of growth and change, and with different space needs.

From a regional economic perspective, Joint Venture Silicon Valley predicts a new wave of technological innovation from bio-tech, info-tech, and nano-tech disciplines for Silicon Valley in the coming years. In its “The Next Silicon Valley” report, the organization forecasts: “There may be a fundamental difference between this wave and the previous waves. Prior waves were based on an industrial model that required more space and more people, and hence promoted rapid quantitative growth spurts that placed major demands on our community infrastructure. The next wave may be different. We may have the opportunity for high productivity growth based on a fundamentally different industrial model with fewer material inputs and less land required. The ‘small technologies’ of the future may lead to different development and employment patterns in the next Silicon Valley.”

The Coyote Valley Vision, with its enhanced connectivity between people, places, and spaces, is poised to accommodate

this “next wave.” The added flexibility of the Town Center, neighborhood districts, live-work units, transit-oriented convenience, buildings that can accommodate a variety of uses, and walkable shops and restaurants will be able to respond to economic change far better than the large campus buildings that are sitting vacant in today’s economic downturn.

The Vision for Coyote Valley also offers a strong community identity and quality of life, characteristics sought by many employers as they consider their company locations. Employees across all income levels want to work and live in communities where affordable housing is available and where there is overall access to high quality of life. According to the Bay Area Economic Forum, the Bay Area’s economy hinges on this difficult-to-quantify quality of life character, which is threatened in many locations throughout the region due to high housing costs and rising traffic congestion.

The Forum states: “The Bay Area enjoys some important advantages, but it is not without competition. There are other regional economies in the United States that have enjoyed high productivity growth and offer a lower cost of living than the Bay Area, making them attractive to both companies and workers. If the Bay Area loses talent to other regions, its source of advantage will erode, which will reduce or even reverse the advantages it now enjoys....The lack of affordable housing, an inadequate transportation system, and an underperforming K-12 educational system threaten the long-term economic prosperity of the region.”

The future Coyote Valley community will provide affordable housing, easy access to parks, transit, and shopping, and allow residents to live close to jobs. It will also provide a variety of commercial sites—from industrial to downtown office buildings—that can accommodate the needs of Silicon Valley’s present and future employers. These factors will make Coyote Valley a model for how Silicon Valley can compete with any other region in the nation at attracting cutting-edge employers.



B. Reduced Infrastructure and Fiscal Costs

Although a general understanding of the costs of sprawl has increased in the past decade, many Bay Area local governments have simultaneously grappled with on-the-ground land use and taxation policies, seeking to maximize public revenues and minimize costs to sustain public services in the face of severe budget constraints. Often, these local decisions are made incrementally, responding to short-term objectives without considering long-term cumulative effects or broader regional impacts.

There are two general types of costs to local government arising from new development: capital costs for infrastructure and community facilities, and ongoing fiscal costs for provision of municipal services and maintenance. For several decades following Proposition 13 and other statewide policy initiatives, both have posed challenges to local government budgets.

Capital Costs for Infrastructure

To address diminishing revenues and increasing demand for community facilities, most cities, including San José, have curtailed their own expenditures on capital improvements, except in locations where redevelopment projects are encouraged. Instead, most or all of these direct capital costs to serve new development are passed to the developers, through

development impact fees and exactions, and in some cases, to the eventual occupants (buyers and/or tenants) through special assessment districts and other financing mechanisms. The Vision anticipates that fees, exactions, and assessment districts will play a major role in providing Coyote Valley with infrastructure. In communities throughout California, the shift of infrastructure costs to eventual homebuyers, renters, and business owners has played a role in limiting the ability of new development projects to meet affordable housing or economic development goals.

Analysis from Smart Growth planners indicates that compact development can mitigate these costs. While the precise cost savings will vary among projects and between local governments, literature on this topic suggests that infrastructure costs can be reduced by 40 percent or more through the use of Smart Growth planning and compact development approaches to shorten sewer mains, roadways, and other expensive infrastructure. A 1999 study by the Center for Energy and the Environment analyzed several scenarios of sprawl versus Smart Growth for housing projects in the Minneapolis–St. Paul area and found an even higher reduction. Houses in a sprawl subdivision incurred infrastructure costs of \$18,374 per unit compared with a Smart Growth scenario of \$7,813 per unit.

In Coyote Valley, compact land development will translate into lower overall infrastructure costs compared to the sprawl version of a community with 25,000 housing units and more than 50,000 jobs. For example, sewer and water systems can be shortened and more efficiently designed, and roadways will be shorter and will efficiently share capacity with transit systems and pedestrian movement, reducing the need for expensive accommodation of large traffic volumes in any given location.

The Coyote Valley Vision will also minimize capital costs for infrastructure due to its intentionally fine-grained land use pattern. The Vision provides for a neighborhood/district/town center layout, and a flexible mix of land uses, allowing the community to respond to changing market conditions. Moreover, the overall pattern envisioned does not depend on large parcels of land to be developed in an “all or nothing” sequence for large single users. Instead, the community can be built over time using varied amounts of land converted to developed uses and allowing for phased implementation. These aspects of the Vision—flexible land use patterns that can respond to market conditions rather than sit vacant and the ability to develop smaller increments of land—will both translate into a sensible, phased development approach, lessening the up-front capital costs needed to serve each increment of new growth for many infrastructure systems.

The savings from lower infrastructure costs due to compact development and the more fine-grained, flexible mix of land uses, can benefit all parties in the development process, with specifics depending on the mechanisms employed to finance the costs. Some of the costs will be borne by developers paying impact fees, and while these are generally calibrated to meet future citywide infrastructure needs, the cost reductions in Coyote Valley may change the calculation of impact fees citywide. Other costs may be financed through one-time exactions from developers to build infrastructure or fund program costs such as childcare facilities and health clinics specific to Coyote Valley. In these cases, lower costs compared to a sprawl alternative may create a strong financial incentive from the private developer’s perspective to build the smarter vision. Both lower impact fees and fewer one-time exactions will also assist non-profit housing developers in meeting their financial needs (or lower public agency costs if these are being subsidized on behalf of non-profits).

Savings from compact development can be reinvested in the community by funding the planned community facilities that will serve the needs of lower-income households, particularly the childcare facilities and health clinics. Resources to fund these facilities are envisioned as an integral part of the overall financing plan for the Valley and including mechanisms such as the Community Services and Facilities Districts (discussed in Chapter VI), development impact fees, and one-time payments by developers.

Buyers and renters may also enjoy some of the cost savings associated with lower infrastructure costs as developers pass on lower fees and assessments in the form of lower sale prices and rents. However, since private developers will often retain the additional profits, the City could structure development incentive programs that reward the use of compact development and lower infrastructure costs to encourage passing these savings forward in exchange for other entitlements.

Ongoing Fiscal Costs

In contrast to capital costs, the ongoing provision of municipal services—such as police and fire protection, libraries, and general government—has remained primarily a local government fiscal responsibility. In cities across California, fiscal impact studies are typically conducted prior to project approvals, and often much earlier, during the general plan or specific plan stage of land use planning. Decisions to approve new development proposals have led to numerous examples of the “fiscalization” of land use and assumptions regarding “fiscal winners and losers.”

One of the most common outcomes of this process has been the assumption that new housing developments are unable to fully fund increased demands on police, fire, schools, and libraries through project-generated tax revenues, creating an

assumption that most housing projects are fiscal losers. However, it should be noted that this presumption is often incorrect. Many housing projects can be fiscally neutral or have positive impacts on a city’s General Fund, depending on the pace in which the units are developed and sold or rented (typically referred to as “absorption”), home values, and existing service capacities.

To illustrate that housing can be a “fiscal winner,” consider the following example of the differential in property tax revenue between compact housing and suburban-style offices. If 100 housing units are built and sold in a 2-year period on three acres of land—so that the total built area is 150,000 square feet, and each 1,500 square foot unit averages \$500,000 (more than \$330 per square foot)—this 100-unit project would yield more than \$500,000 per year in property tax revenues. Moreover, tax revenues would likely start flowing rapidly due to strong demand and fast sales of those units.

In comparison, if the same three acres are developed for suburban-style offices at a floor area ratio of 0.25 to allow for surface parking, the commencement of property taxes would depend on the timing of construction (which may take several years or more). The eventual property tax yield for those 3 acres generating a 32,670- square-foot building worth \$250 per square foot would be less than \$82,000 per year. It should

be noted that the inclusionary housing policies set forth in Chapter VI would result in 20 percent of the housing units in this example to be sold at prices affordable to very-low- and low-income households. These units will also generate property tax revenues and contribute to the overall fiscal balance of the project.

The ultimate impact on the City’s General Fund will depend on the cost to provide services to these alternate land uses. These service costs, in turn, depend on a multitude of factors such as number of calls for police service and the existing capacity of police personnel to absorb additional service calls. However, it is likely that, on balance, the housing use in this example will have a more positive fiscal impact than the office development.

In Coyote Valley, the Vision’s mix of uses has not been analyzed for its fiscal impact on the City’s General Fund; the City of San José should conduct a detailed analysis of the fiscal impacts of Smart Growth as it prepares its specific plan. It is likely that the Vision’s market-rate housing components will be, at a minimum, revenue-neutral. The range of housing choices offered through diverse product types will lead to the ability to attract different occupants, while the amenities offered by the Vision will lead to relatively high overall housing values for the market-rate components. Similarly, the

mix of small and larger business, industrial, and retail spaces will bring an overall higher property tax value because they can be sold or rented in smaller increments than a single large-user campus, matching the ebbs and flows of market demand. In addition, the reduced commute trips and increased pedestrian movement will lower the long-term maintenance costs to roadways, while the increased amount of retail space over prior plans will lead to higher sales tax revenues.



C. Higher Return on Investment

One of the key trends in Smart Growth communities is a growing realization by private investors that compact development can lead to higher profits in real estate development projects. A stronger sense of community, greater convenience in a congested world, and preservation of viewsheds and open space has been demonstrated on the ground to result in higher property values. Economists call these higher values attributable to specific Smart Growth amenities or other factors “premiums,” because they are additive to the basic value of the real estate project.

These findings are documented in *Valuing the New Urbanism*, a study published by the Urban Land Institute (ULI), the preeminent real estate development trade organization in the country. The study examines sale price trends for four New Urbanist communities based on Smart Growth principles: Southern Village in Chapel Hill, North Carolina; Harbor Town in Memphis, Tennessee; Laguna West in Sacramento; and Kentlands in Montgomery County, Maryland. The study found that premiums for these communities’ housing sale prices compared to conventional nearby subdivisions ranged from 4 to 25 percent, with an average of 11 percent price premiums. Researchers identified these premiums after adjusting for differences in unit sizes and amenities, and found the results to be statistically significant.

A related aspect of the Vision is its emphasis on creating transit-oriented development, which will also bring enhanced

sale price and rent premiums. For example, in a 1997 study of premiums associated with BART station-area transit-oriented development, the analysis found price premiums of \$4,280 to \$48,960 per unit for single-family homes, rent premiums of \$42 to \$50 per month for residential rental units, and rent premiums of up to \$3.35 per square foot per year for office spaces.

While these sale price or rent premiums attributable to the Vision’s Smart Growth and transit-oriented development patterns will assist in creating financially feasible projects, they underscore the need for careful planning to ensure sufficient affordable housing. As outlined in Chapter VI, a comprehensive set of affordable housing policies and programs will be necessary to offset these higher values, ensuring that a diverse community can be built to accommodate all housing needs.

The Vision also incorporates direct development cost savings through reduced parking standards. Parking in surface lots consumes valuable land. Structured parking conserves land and may be a better long-term investment for a land owner since more land can be put to more valuable uses, but in the short run, structured parking is expensive to construct. Typical parking garages can cost upwards of \$10,000 per parking space in above-ground garages to \$20,000 per space in partially submerged podium structures, to more than \$25,000 in underground garages. Development cost savings from

reduced parking requirements can add up quickly—for a 100-unit multi-family project, a reduction from two podium garage parking spaces per unit to one space results in an immediate cost savings of \$1 million or more.

Some of these savings can be enjoyed as profit by developers, and savings can also be passed onto renters and homebuyers in the form of reduced housing costs. Moreover, for every square foot of land that is devoted to high-value housing or employment space rather than automobile space, these tradeoffs can yield higher return to the landowner from better utilization of land to produce revenues. Finally, a direct fiscal result of reduced parking requirements is that more housing units can be built per acre than in sprawl communities, potentially increasing property tax revenues on a per-acre basis.



D. The Long Term: Reduced Costs and Increased Property Values

The Vision’s focus on green building concepts, transit-oriented development, and integration of mixed-use districts will also bring substantial long-term economic value to businesses, residents, and public agencies.

The City of San José has adopted a Green Building program for its own facilities, and has implemented it in designs for the West Valley Library, Pala Community Center, and the new Civic Center. Private buildings in San José, such as the 29,200-square-foot International Brotherhood of Electrical Works, have also incorporated these standards, leading to energy cost savings of 80 percent on the building’s electrical power consumption. In another example, the Thoreau Center for Sustainability, a historic building renovation in the Presidio of San Francisco, has saved more than \$22,000 per year in energy costs (one-third of its annual energy costs).

By offering transit as an alternative to driving, along with the policies aimed at commute trip reduction, the Vision will generate substantial transportation cost savings to residents. According to the Surface Transportation Policy Project, households in communities with strong public transportation systems spend substantially less on transportation than households in communities with poor transit systems. For example, in the late 1990s in Houston, where a car is necessary for almost every trip, the average household spent \$8,840

annually on transportation—an amount larger than average annual housing costs in the community at that time. Conversely, in Baltimore, a city with a robust transit system, the average annual household transportation cost was \$5,236—more than \$3,600 lower than in Houston.

The Vision may also provide health care savings. The increased health benefits of more walking, changes in local dietary habits resulting from the connection to the Coyote Valley Food Belt, and reduced air pollution will all likely contribute to a “healthy” community, potentially lowering longer-term health care costs.

Communities with Smart Growth features also tend to sustain and enhance property values over the long term. For example, at the 240-unit Village Homes community in Davis California, single-family homes were developed with features including natural drainage systems, energy-efficient construction, and on-site community gardens. The sustainable development approach has, over time, demonstrated clear benefits in resale prices—analysis conducted 15 years after construction showed that homes sold for \$10 to \$25 per square foot above comparable units.

From a regional perspective, developing Coyote Valley consistent with Smart Growth principles will bring a broad range of economic benefits when compared to typical sprawl

development. The Bay Area will continue to grow—the Association of Bay Area Governments forecasts the need to accommodate an additional 1 million jobs and the households associated with them by the year 2020. Implementation of the Coyote Valley Vision will accommodate a portion of that growth, eliminating pressure for those households and jobs to be located elsewhere as sprawl development. Moreover, by locating jobs and housing together in a compact, walkable community, the cross-regional commuting of people to their jobs will be reduced. These benefits, in turn, have economic effects ranging from decreased air pollution to time-savings from lower commute distances and increased worker productivity.



E. Economic Benefits of Smart Growth

The Vision for Coyote Valley “gets it right” by creating a wide array of benefits for the community’s residents, workers, and employers:

Benefits to City of San José

- Reduced infrastructure costs from compact development
- Fiscal benefits to City’s General Fund from reduced maintenance and energy costs
- Increased property tax revenues from higher land and building values
- Increased sales tax revenues from more substantial and better-integrated retail
- Reduced traffic congestion
- Increased attraction of employers
- Increased capacity to absorb economic cycles
- Model community prepared for Silicon Valley’s “next wave” of economic growth

Benefits to Landowners/Developers

- Sale price and rent premiums, leading to greater profitability and higher return on investment
- Reduced market risk due to flexible and diverse building types
- Reduced development costs in infrastructure and parking

Long Term Economic Benefits

- Reduced occupancy costs for businesses through energy savings
- Increased worker productivity through higher quality of life and lessened commute times
- Lower resident occupancy costs due to potentially lower tax assessments, lower energy bills, and lower transportation costs
- Increased property values for business and residences
- Prevention of sprawl throughout the region by accommodating growth in Coyote Valley in an environmentally sensitive, socially equitable and economically sound manner
- Higher quality of life and sustained economic vitality