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Evaluating the Potential for a Market-Based Transferable Development Rights Program to Preserve Open Space in Santa Barbara County

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Background

Santa Barbara County is a prime example of a region struggling with the planning implications of urban sprawl. Since 1970, the County has attracted 130,000 new residents and lost 14,000 acres of open space and agricultural land to urban development. The County's Planning and Development Department predicts a similar increase in population over the next thirty years and is operating on the basis that

development pressures are such that new dwellings are needed to absorb the expected increase in populationⁱⁱ. This will likely result in the conversion of thousands of acres of undeveloped land to urban development. Given this expectation of future growth, the concern remains as to whether the current preservation policies are sufficient to prevent the future conversion of the County's remaining open spaces and agricultural lands.

Project Significance

To date, much of Santa Barbara County's open space and agricultural land has been sheltered from development through the enforcement of regulatory policies such as urban growth boundaries for urban areas and low-density agricultural zoning designations for rural areas. In addition, the County has also relied heavily on the State's Williamson Actⁱⁱⁱ program to temporarily preserve most of the County's remaining agricultural lands. Yet, these policies do not guarantee the permanent preservation of the lands they regulate; rather, the protections they afford are subject to

changing attitudes and political wills. The widespread use of acquisition-based preservation strategies would be prohibitively expensive. In contrast, a market-based TDR policy can potentially permanently preserve land in the context of future growth with minimal taxpayer burden.

What is a TDR Program?

A TDR program is a voluntary, market-based land preservation tool which allows communities to reduce or eliminate the future development potential in areas targeted for preservation in exchange for increasing the existing development potential in areas targeted for growth.

A TDR program allows landowners of "sending sites" (parcels targeted for preservation) to sever the development rights from their property and sell them on the open market. Landowners retain the bundle of other rights associated with the land while being compensated at fair market value for lost development potential. Once the development rights are sold from the property, the land is protected from future development in perpetuity with a conservation easement.



Figure 1: Example of transfer of development rights.

On "receiving sites" (parcels designated for increased development), the local planning agency grants developers the right to build at increased density above baseline zoning with the purchase of TDRs (Figure 2). Increased density diffuses fixed costs over a greater number of houses and leads to increased profits for the developer. The voluntary nature of TDR programs allows private landowners and developers the ability to make decisions that are in their own best interest.

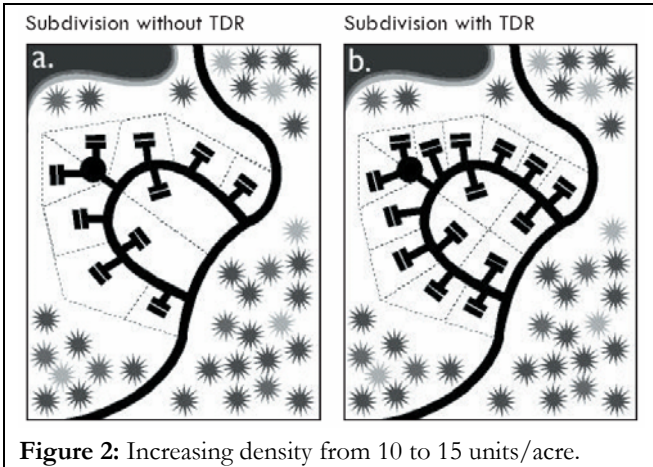


Figure 2: Increasing density from 10 to 15 units/acre.

Research Question

This project seeks to answer the question: Can a market-based TDR program be a politically and economically feasible policy tool to preserve valuable open space in the context of future growth?

Approach

Recognizing the variability of TDR programs as they pertain to geographic locations and the spatial variability in land values, this report addresses TDR in the context of two Santa Barbara County housing market areas (HMAs): the South Coast HMA and the Santa Maria HMA. We analyzed the feasibility of a TDR program using the following three approaches:

- Thorough research of existing TDR programs to identify a set of key program components that are requisite to a successful TDR program.
- A policy analysis of the current regional land use regulation regimes, regional geo-political issues, and development patterns in the County to frame how a TDR program could be structured to be consistent with the existing regulatory framework.
- An economic analysis that models the developers’ willingness to pay for increased density.

For the economic analysis, we used Multiple Listing Service house sales data to model project revenues and financial cost estimates from local developers to model project costs. Using these models, we calculated developers’ willingness to pay for increased densities in the targeted housing market areas.

Key Findings

We find that a TDR program is both a politically and economically feasible policy tool to permanently preserve land in the context of future growth.

However, because of the variability in land markets and geopolitical issues across the region, a “one size fits all” TDR program for the County will not prove effective. The success of a TDR program is contingent upon harmonizing the economic, political, and regulatory variables inherent to each locale.

- In the Santa Maria HMA, where agricultural activities dominate the local economy, our political analysis determined that existing communities would benefit most from a TDR program that designates highly productive agricultural areas outside the UGB as sending sites, while restricting receiving sites to the undeveloped areas within the UGB. Where highly productive agricultural lands and urban open spaces are less common throughout the South Coast HMA, however, our political analysis determined that existing communities would be better served by a TDR program that permits the few remaining prime agricultural lands within the UGB to serve as either sending or receiving sites.
- From a developer’s perspective, we found that most new developments have been built at sub-optimal densities (i.e. densities where project profits are not maximized). Our economic analysis indicates that developers possess a strong demand to increase their project densities with TDR purchases in both the Santa Maria and South Coast HMAs. Figure 3 illustrates this fact for the Goleta area within the South Coast HMA.

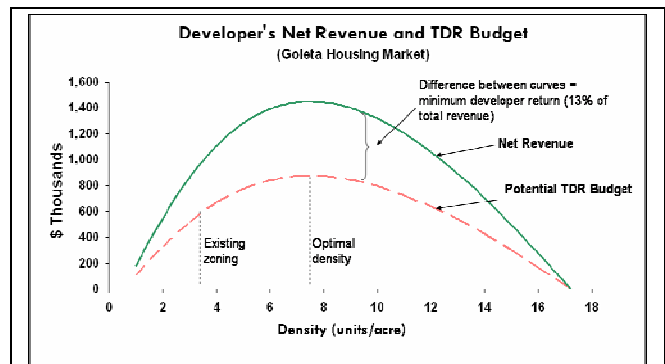


Figure 3: Developer net revenue and TDR Budget in the Goleta area within the South Coast HMA.

- In the Goleta area, where average densities are currently 3.7 units/acre, our model estimates developers maximize net revenue at an optimal density of 7.6 units/acre. In the Santa Maria area, where average densities currently range from 3.3



to 4.6 units/acre, our model estimates developers maximize profits at 10.5 units per acre.

- Notably, our economic analysis indicates that there is a much stronger demand for TDRs in South Coast HMA than in the Santa Maria HMA (Figure 4). In the Goleta area, for example, developers would be willing to spend up to \$871,139 to build 7.6 residential units on a single acre of vacant agriculturally zoned land. In contrast developers would only be willing to spend up to \$250,934 to build 10.5 units on a similar acre in the Santa Maria HMA.

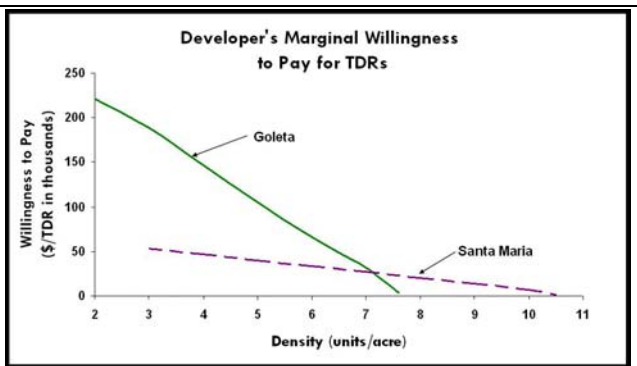


Figure 4: Developer’s marginal willingness to pay for TDRs to increase to the corresponding density in the Goleta and Santa Maria areas. Willingness to pay per TDR decreases as density increases. Note that willingness to pay is substantially larger for the Goleta area than in the Santa Maria area.

Key Recommendations

1. Assess the market for TDRs by determining developer demand for increased density.

The success of TDR programs hinges on stimulating developers to purchase development rights. Receiving sites should be identified with sufficient development value to motivate developers to purchase development rights and be located in areas where the community wishes to encourage additional development. The estimated developer demand on these receiving parcels should be used to identify adequately valued sending parcels and establish equitable transfer ratios. In this way the economic limitations of the lands a TDR program can effectively preserve are properly acknowledged.

2. Require TDR purchases when re-zoning/up-zoning parcels for development.

The County and city planning agencies of Santa Barbara should consider requiring mandatory TDR purchases for all parcels going through re-zone to higher densities. This includes urban agricultural lands being re-zoned to residential, as well as existing residential, vacant, or mixed used parcels being up-zoned to higher densities. This action is warranted in light of the strong developer demand and pressure to meet housing requirements. A mandatory mechanism allows the jurisdiction to obtain an added social benefit with increased preservation of open space rather than freely granting increased development potential to developers through unconstrained re-zones/up-zones.

3. Limit the geographic scope of the TDR program to allow receiving site communities to benefit from proximal preservation (sending) sites.

The size of the TDR program jurisdiction and the geo-political boundaries across which development rights are transferred has a significant impact upon the success of a TDR program. The reality is that strong political barriers exist with respect to development transfers across jurisdictions.

- a. TDR programs would be best focused at the community/city levels to allow both inter and intra jurisdictional transfers, located within a relatively confined geographic area with similar preservation goals, and preferably within an area of similar real estate market values. From a public policy perspective, this will provide less opposition and will be politically and administratively easier to establish.
- b. Receiving sites face varying degrees of opposition depending on community values. We find that communities will need to carefully weigh the trade-offs of increased density with subsequent land preservation. To effectively minimize opposition, the sending sites and receiving sites need to be spatially linked; communities need to be nearby the preserved sites in order to witness the benefits that result from increased density.



Key Recommendations Continued

4. Create realistic incentives for sending site landowners and receiving site developers.

a. Appropriate transfer ratios are the key incentives for sending site landowner participation. Transfer ratios indicate how many development rights a sending site is able to transfer from the parcel in relation to its existing zoning (Figure 5). The ratio is equal to the number of TDRs allocated to the parcel divided by the parcel's existing zoning.

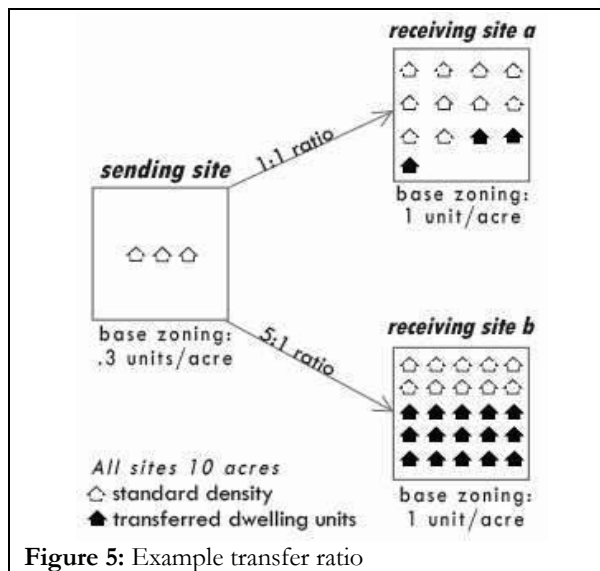


Figure 5: Example transfer ratio

- i. In the Goleta area, due to the uniquely high development values and their subsequent large disparities from one location to the next, a transfer ratio would best be established as a function of appraised value on the sending parcel(s) and an estimated developer willingness to pay across the designated receiving parcels.
 - ii. In the Santa Maria area, due to the relatively homogeneous land values throughout the housing market area, transfer ratios would best be established as a function of the sending sites' existing zoning and distance to the urban centers; (i.e., sites closer to the urban fringe are allocated more TDRs assuming preservation value is highest near urban fringes and decreases further out).
- b. Key incentives for receiving site developers are:
- i. Providing a sufficiently large density bonus that permits developers to build at increased density after purchasing TDRs (typical bonuses range from 50% to 100% above baseline zoning).

- ii. Allowing the developer to finance the cost of the TDR.
- iii. Guaranteeing developers using TDR that it will not reduce their 'by right' amount of development.
- iv. Reducing the time to permit with the use of TDR (mini EIRs/TDR-specific staff, etc.).

5. Facilitate transactions within the TDR market using a bank and/or auctions.

A TDR bank can buy and sell development rights during periods of little market activity and establish landowner and developer confidence. In addition, periodic TDR auctions bring market players together and establish the market price for development rights.

A TDR bank can also serve as a clearing house of information related to recent transactions for willing TDR buyers and sellers. This can lead to increased market participation. Seed money for a TDR bank could come from CREF grants, state grants, local sales tax, and/or private donations.

Conclusion

This report provides evidence to support a TDR program's political and economic feasibility in Santa Barbara County. As with all complex environmental problems that integrate social, regulatory, and economic variables, the solution to preserving land in the context of future growth is not straightforward. These variables must be exhaustively explored to arrive at balanced creative solutions. As with most public policies, there are those that capture the benefits of the policy and those that bear the cost. A TDR program, if structured properly, minimizes these inequities. We show evidence to support our recommendations that assessing developer demand, requiring purchase of TDRs to up-zone, limiting the size of the program, creating incentives for participation, and utilizing a bank are keys to the success of a TDR program in Santa Barbara County. If Santa Barbara County is to move forward with a TDR policy it will require bold leadership and vision by the community and our public officials.

ⁱ Santa Barbara County: Land & Population 2030; November 2000.
ⁱⁱ The 2003-2008 County Housing Element calls for a need of 6,064 additional dwelling units by the year 2008 in the unincorporated County and 17,531 in all areas combined.
ⁱⁱⁱ Williamson Act is a California State policy that provides property tax relief for farmland to encourage farmers to keep their land under agricultural production.