



## MEMORANDUM

**TO: PLANNING COMMISSION**

**FROM: ANDREW PEREZ, ASSOCIATE PLANNER**

**SUBJECT: SUPPLEMENTAL INFORMATION FOR AGENDA ITEM 8.a. – JANUARY 5, 2021 PLANNING COMMISSION MEETING:  
CONSIDERATION OF GENERAL PLAN AMENDMENT 19-002;  
HOUSING ELEMENT UPDATE AND ADDENDUM TO THE GENERAL  
PLAN ENVIRONMENTAL IMPACT REPORT; LOCATION – CITYWIDE**

**DATE: JANUARY 5, 2021**

Attached are comments received after agenda preparation regarding the proposed project.

cc: City Manager/ Acting Community Development Director  
Public Review Binder

## HCD Must Reject Arroyo Grande's Draft Housing Element

Arroyo Grande should be commended for having one low-income housing project going up, and another in the works. But, unfortunately, the Arroyo Grande Public Draft Housing Element (from here on, Housing Element) falls short and must be rejected. While it superficially appears to barely make enough building sites available to satisfy its RHNA housing quota, a closer examination shows that it makes impermissible and outlandishly optimistic assumptions about where and when building will occur. Specifically, for primary homes, it assumes that every available site, no matter how difficult to develop, will actually be built up, while for ADU construction and use, it makes unrealistic assumptions that are contradicted by its own evidence. It thus fails to satisfy the requirements set out by HCD. It must be rejected and sent back for improvement.

Like all California cities, Arroyo Grande has been assigned a quota of housing it must produce in the Sixth RHNA Cycle. As a part of its Housing Element, Arroyo Grande, like all cities, must list a Site Inventory of parcels available for home-building to satisfy that RHNA quota. If that list doesn't include enough sites so that the quota can be fulfilled, the city must include a plan to upzone to generate more sites, so that enough sites will be available.

Each site listing must include a *realistic capacity*, the expected number of housing units that will be generated from this site. In its Housing Element Site Inventory Guidebook, on p. 22, HCD explains how to calculate this number: First, determine the number of units that would be expected to be built, if the parcel were developed. Second, determine the "realistic potential for residential development capacity" (p. 20) — the probability that this site will be developed. Then multiply these two numbers together. Thus the realistic capacity is the probability that the site will be developed, times the number of units that would be developed if it were developed.<sup>1</sup>

The Housing Element did not do this calculation correctly. It omitted the "realistic potential for residential development capacity" step, or (equivalently) it assumed that every single site in the inventory would be certain to be developed (100% probability). This is preposterous. No evidence to support this omission was presented, because there is none. It assumes that every single site in the inventory, even the most difficult to develop and the most unappealing to developers, will be developed. This failure to follow an essential rule given in the Site Inventory Guidebook, by itself means that the Housing Element should be rejected.

This is not merely a technical issue. A look at some of the sites listed in the Housing Element shows how badly it overestimates the amount of housing it will produce. HCD suggests that cities make available in their Site Inventory at least 15 to 30% more site capacity than required

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<sup>1</sup> In other words, it's the mathematical expectation of the number of new units the site will generate.

to fulfill the RHNA quota, in case fewer homes than expected are built on the available sites. Unforeseen events can derail even the most promising developments, which is why cities are advised to include a generous margin of extra sites. Arroyo Grande's RHNA quota for new Above Moderate Income housing is 293 units, of which they've already permitted 118, leaving 73 yet to be developed. The quote for Moderate Income housing is 124 units. The Site Inventory gives buffers of only 14% for Above Moderate Income sites, and only 10% for Moderate Income sites. These buffers would be meager even if Arroyo Grande had correctly computed the realistic capacity. But as Arroyo Grande's calculations are far from plausible, the buffers are demolished. If Arroyo Grande had done a more realistic analysis, they would have discovered that they have not allocated enough sites to achieve their quota, and they would have included more sites, as they should now be instructed to do.

In the Above Market Income (AMI) RHNA category, there are some vacant sites and some non-vacant sites. The vacant inventory, like all the sites in the Housing Element's Site Inventory, incorrectly assume that every single site will certainly be developed, but the non-vacant AMI site inventory is even more flawed. It would have been more plausible to claim that every single non-vacant site would be developed if the Site Inventory had only listed sites sparkingly attractive to a business person trying to make a profit by acquiring properties and putting up buildings in a reasonable amount of time. But some of these sites are difficult-seeming sites that developers would be inclined to avoid, sites that are not zoned for the housing Arroyo Grande says will be developed there, or sites that are impossible to develop further because they are single family sites that already have brand new houses on them.

For example, two parcels on Huasna Road are listed in the non-vacant AMI inventory. The Housing Element describes them as designated for farmworker housing and notes they could potentially be rezoned. Despite the fact that the sites are not even currently zoned for housing that is not for farmworkers, the Site Inventory asserts that 14 AMI units will be built there, because the sites could be rezoned to MF (9 du/acre). If the city plans to get 14 AMI units out of these sites, the Housing Element should include a plan to rezone them. It does not. If the city has evidence that some developer wants to acquire, rezone and develop these sites, that evidence should appear in the Housing Element. It does not.

Also in the AMI Site Inventory are 27 sites on Grand Avenue, with multiple owners. The sites form a strip mall that currently has active businesses. Because of the multiple owners, this has to be a low probability site for any development, yet we're told to expect 25 AMI houses here. Once again, if there is any evidence that a developer would choose to spend the time and money to buy or get purchase options from the owners of 27 different parcels, rather than do anything else with their time and money, that evidence needs to be supplied. HCD and the public should not be expected to accept implausible claims without evidence.

The Moderate Income inventory is worse. The Site Inventory accounts for eight of the required 124 units, to be built in the VC zoning district (again improbably assuming that every single available site will be developed), leaving 116 more units. On p. 68, the Housing Element asserts that new ADUs will satisfy this remaining quota. Unfortunately, the math doesn't work.

According to the city's 2019 Annual Progress Report, 12 ADUs were permitted in Arroyo Grande in 2019<sup>2</sup>, and according to the Housing Element, 17 ADUs are expected to be permitted in 2020. The Housing Element asserts that the remaining seven years will see an additional 236 ADUs built, an average of about 34 per year, double the presumed 2020 rate and almost triple the actual 2019 rate. About half (120) of these new ADUs, the Housing Element says, will be affordable to moderate income households, and the other half (116) will be affordable to low income households.

In support of the idea that these hypothetical 34 units per year will be affordable housing, the Housing Element points to a San Luis Obispo county study saying that “accessory dwelling units *currently available for rent* in San Luis Obispo County are affordable to a variety of income groups and household sizes.” (my italics) The unstated assumption is all of their hypothetical new ADUs will be available for rent, rather than being employed for other uses.

How many of these new ADUs would in fact be offered for rent, rather than being used in another way? The Housing Element offers evidence, citing Chapple et al. 2017<sup>3</sup> Chapple says, they claim, that “40 percent of accessory dwelling units are typically rented to family members or friends at either no cost or below-market rental rates.” The study says nothing of the kind. In fact, it says only about half of new ADUs are used for primary residences for anyone, with the remainder being used for short term rentals, extra space for main household members, and other non-housing uses.

The Housing Element cannot conclude that all new ADUs will be used for affordable housing, when its own evidence says half of them are used for non-housing uses. Cities cannot be permitted to misrepresent scholarly research to support their position. Arroyo Grande's implausible claim that they'll double their rate of ADU production, and that every single ADU produced will be available for low or moderate income tenants, should be rejected. Therefore, Arroyo Grande has not made available enough sites for Moderate Income Housing, and should be instructed to come back with more areas zoned for housing that people of moderate income could afford.

In addition, the Site Inventory has errors. Three of the non-vacant AMI sites—1051, 1047 and 1045 Ash Street—had new houses built in 2019. These three sites seem to be on the list in error. Even if, for some inexplicable reason, a developer wanted to tear down brand new houses

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<sup>2</sup> The Draft Housing Element says there were 15 ADUs built in 2019, but only 12 are listed in the Annual Progress Report. This discrepancy can be explained by a typo in the Annual Progress Report; the ADU at 591 Gularte Road is listed as having 4 housing units. Rather than a rare ADU fourplex existing on Gularte Road, there looks to be an off-by-one error in the APR, as the 4-unit condo at 1181 / 1183 Ash Street, just above the Gularte ADU in the spreadsheet, is listed as having only one unit. The same off-by-one-line error can be seen in previous lines in the spreadsheet, where the three lines of 518 Paulding Circle, 522 Paulding Circle and 503 Leedham Place are listed as having 1, 2 and 2 units respectively, when the correct numbers are 2, 2, and 1.

<sup>3</sup> Chapple et al, 2017, Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle, and Vancouver, <https://escholarship.org/content/qt4b9836bh/qt4b9836bh.pdf>

and replace them with newly constructed houses, it wouldn't create houses that count for the RHNA quota, because tearing down a house and putting up a new one creates no new net housing.

To summarize: The Draft Housing Element doesn't specify enough zoned capacity for the Above Moderate Income and Moderate Income RHNA quota. The city of Arroyo Grande has incorrectly chosen a development probability of 100% for all sites. Some listed sites are not zoned for the housing Arroyo Grande claims will be built on them. Some sites are unattractive to developers. Some sites have already been developed. The Housing Element proposes to satisfy almost all the Moderate Income and some of the Low Income quota with implausible growth in ADU building along with implausible assumptions about those ADUs' availability and affordability to low and moderate income tenants, assumptions contradicted by their own evidence.

The legislature put teeth in the housing laws so that cities could no longer get away with inadequate Housing Elements like this one. HCD should instruct Arroyo Grande to return with a better, more plausible Housing Element, a Housing Element that has enough sites in the Site Inventory to produce all the housing in its RHNA quota.