

UCLA ECONOMIC LETTER

REAL ESTATE AND THE MACROECONOMY



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Monthly condensed analyses of crucial real estate and economic issues offered by the UCLA Anderson Forecast and UCLA Ziman Center for Real Estate. Here, Donald Shoup, Professor in the Department of Urban Planning at the UCLA Luskin School of Public Affairs, examines how zoning reforms could increase the supply of affordable housing. This article originally appeared in *Urban Land*, the magazine of the Urban Land Institute.

Zoning Boost: Creative Land Assembly Could Increase Affordable Housing

By Donald Shoup

Where property ownership is fragmented and several adjacent sites are needed for redevelopment, persuading all of the owners to agree to voluntary land assembly can be very difficult. Every piece of property is important in the jigsaw puzzle of land assembly, and one property owner can halt the process by refusing to sell. Creative zoning, however, may change property owners' minds and accelerate voluntary market transactions.

"Because redevelopment at higher density provides more housing than it replaces, the increase in the total housing supply should make all housing more affordable."

To encourage cooperation in land assembly, some cities allow higher housing density on larger sites. If a developer can assemble enough adjacent properties, the higher density allowed on the larger site leads to higher land values per square foot. Developers have a new incentive to pay more to assemble small properties, and adjacent owners have a new incentive to sell their land for redevelopment. Allowing higher density on larger sites can thus stimulate voluntary land assembly because the whole is worth more than the sum of its parts.

In 1996, Simi Valley, California, became the first city to adopt graduated density zoning when it doubled the housing density allowed on sites 13 acres or larger in an underused part of the city.

Within a year, a developer had assembled 18 parcels to create a 31-acre site. By 2000, a master-planned community with 200 single-family homes had been built on those 31 acres formerly occupied by eight single-family homes.

Glendale, California, uses graduated density zoning to improve the design of apartment buildings. On lots wider than 90 feet, Glendale increased the allowed housing density by 25 percent and raised the allowed building height from two stories to three. Because most residential lots in the city are 50 feet wide, the incentive for wider lots encourages land assembly for infill housing.

The difficulty of assembling land often prevents renewal in older cities. If graduated density zoning encourages voluntary land assembly, it can create more affordable housing, improve urban design, and slow suburban sprawl.

On the other side of the country, Jersey City, New Jersey, adopted graduated density zoning in its Journal Square neighborhood, which is a short subway ride under the Hudson River to Manhattan. Journal Square has many small lots dating from its original settlement in the 17th century. To encourage assembly of this fragmented land, the zoning allows six times higher housing density on sites larger than 60,000 square feet than on sites smaller than 6,000 square feet. A developer who assembles 12 lots measuring 5,000 square feet each to produce a 60,000-square-foot site can therefore build six times more housing than if the lots were developed separately. This windfall gives property owners a strong incentive to join in land assembly for new housing.

LOT SIZE (Square Feet)		Maximum Permitted FAR (residential primary use)	Maximum Permitted FAR (office primary use)
From	To		
0	5,999	4	4
6,000	19,999	8	6
20,000	29,999	16	8
30,000	59,999	20	12
60,000	and up	25	16

Source: Journal Square 2060 Redevelopment Plan

Jersey City adopted the graduated density zoning for Journal Square in 2010, and it sparked a building boom. Developers KRE Group and National Real Estate Advisors have completed Journal Square, a 53-story apartment building on assembled land, and the city has approved nearby towers that would be 65 and 70 stories tall—the latter being the tallest building in New Jersey. The developers optimistically predict that Journal Square will soon rival New York City's Rockefeller Center (which was also the result of successful land assembly in the 1920s).

Few infill projects will ever rival Rockefeller Center. Nevertheless, cities can use graduated density zoning to spur private investment and use the increased property tax revenue to pay for public investment. The expected combination of private and public investment should increase the landowners' and developers' confidence that an area will improve and thus further stimulate assembly and redevelopment, without any subsidy.

LOW-INCOME HOUSING

Assembling sites for low-income housing is especially difficult. The holdout problems and delays associated with land assembly typically mean that only high-end housing can make a profit. Graduated density zoning helps solve this problem in three ways.

First, it reduces the incentive for property owners to hold out of a land assembly by creating a desire not to be left out. If holdouts are left with sites that cannot be combined with enough adjacent properties to trigger a higher allowed density, they lose the opportunity to capitalize on the higher land values created by that higher density.

Second, the density bonus associated with land assembly enables a city to require some affordable housing on sites assembled for market-rate housing. For example, a city can require developers to add more affordable housing than the land assembly process removes from the local housing stock.

Third, because redevelopment at higher density provides more housing than it replaces, the increase in the total housing supply should make all housing more affordable.

Graduated density can also help in nonresidential areas. Many commercial strips are lined with little more than shacks on expensive land. If a city allows higher density on lots wider than, say, 100 feet, developers might assemble lots big enough for infill projects with retail uses at the street level and offices or housing above.

Graduated density is not appropriate everywhere because bigger is not always better. It will be appropriate only where cities want to encourage redevelopment on larger lots, such as around transit hubs. Fortunately, graduated density has the advantage of being a simple change. If it fails to stimulate land assembly, no harm will be done.

The difficulty of assembling land often prevents renewal in older cities. If graduated density zoning encourages voluntary land assembly, it can create more affordable housing, improve urban design, and slow suburban sprawl. A minor zoning change can produce major public benefits

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Dr. Shoup's research on graduated density zoning was funded by a grant from the UCLA Ziman Center for Real Estate. For more information, here are links to the research that informs this Economic Letter:

Donald Shoup, "Graduated Density Zoning to Encourage Land Assembly for Infill Development," Zoning Practice, January 2009, pp. 2-7. <http://shoup.bol.ucla.edu/GraduatedDensityZoningInPractice.pdf>

Donald Shoup, "Graduated Density Zoning," Journal of Planning Education and Research, Vol. 28, No. 2, Winter 2008, pp. 161-179. <http://shoup.bol.ucla.edu/GraduatedDensityZoning.pdf>

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