

UCLA ECONOMIC LETTER

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Monthly condensed analyses of crucial real estate and economic issues offered by UCLA Anderson Forecast and UCLA Ziman Center for Real Estate. Here, C.J. Gabbe – assistant professor in Santa Clara University's Department of Environmental Studies and Sciences, and alumnus of UCLA Luskin School of Public Affairs – examines the real impact of residential development regulations.

This Economic Letter is extracted from Gabbe's study, [How Do Developers Respond to Land Use Regulations? An Analysis of New Housing in Los Angeles](#) recently published in the journal [Housing Policy Debate](#).

What Are the Real Constraints on Housing Production? Understanding Written Regulations and Implementation in Los Angeles

By [C.J. Gabbe](#)

There is clear evidence that regulations constrain housing production. We know less, however, about which zoning provisions matter most and why. I wanted to better understand the real world impact of zoning in Los Angeles. To do this I compared the characteristics of 32 new multifamily housing developments with baseline zoning requirements in two sets of Metro rail station areas: Vermont/Western and Koreatown. I then supplemented this building-scale analysis with expert interviews, including real estate developers and their planning consultants.

My two main findings are that (1) developers are sensitive to density limits and parking requirements, and (2) the implementation of regulations can be as important as the written regulations themselves. The average

development in the Vermont/Western area had 112% of the baseline allowable residential density and 94% of the minimum required parking. Koreatown's average development had 99% of the baseline residential density and 88% of the required parking. But, developers responded differently to zoning requirements depending on the project's location and whether it was affordable or market-rate, apartment or condominium, and by development size.

“Vermont/Western Specific Plan influenced local housing production and prices between 2000 and 2010. It resulted in a net increase of 696 housing units, representing the loss of 198 single-family units and the gain of 894 new multifamily units. About 22% of these new units were affordable housing.”

DENSITY LIMITS COMMONLY CONSTRAIN DEVELOPMENT

Density caps are a common constraint for developers, particularly of affordable housing and large developments. Many developers' close conformance to the zoning limits – and common requests to deviate from the baseline zoning using density bonus incentives – provides evidence that developers would build more housing (and less parking) given the opportunity.

The amount of new housing built would depend on the local context, and how density limits are designed. The two types of direct density caps that I studied were residential density (dwelling units per acre) and floor area ratio (FAR). In Vermont/Western and Koreatown, residential developments were commonly constrained by residential density limits, while less so by FAR requirements. This was because only mixed-use developments in Vermont/Western were subject to FAR limits, and most of the developments in Koreatown were subject to a 6.0 FAR, which is difficult to achieve given residential density limits.

PARKING REQUIREMENTS MATTER

The amount of parking built is a function of regulations, market, and political factors. Some developers – including developers in transit areas – may build more parking than required because they act conservatively, erring on the side of too much parking rather than too little; perceive there to be market demand for more parking; and/or comply with stringent lending requirements.

The off-street parking regulations were somewhat different in Vermont/Western and Koreatown, but minimum parking requirements were constraints to developers of affordable and less expensive market-rate housing in both areas. The affordable housing developments were all approved at or below the minimum parking required. There was more variation for market rate developments. The predominantly or exclusively market rate developments in Vermont/Western all met or exceeded the minimum requirements, while those in Koreatown tended to include less than the minimum required. Overall, minimum parking requirements seem to most affect development in centrally-located neighborhoods with frequent transit service.

IMPORTANCE OF UNDERSTANDING IMPLEMENTATION PROCESSES

The implementation of regulations can matter as much as, or more than, the written regulations themselves. We cannot understand the full puzzle of land use regulations without studying both the written and implementation components.

Planners and elected officials exercise discretion as they implement land use regulations. The interviewees emphasized that while decision makers employ discretion at different points in the process, developers highly value proven pathways to approval. Developers are often willing to provide public benefits in exchange for allowances and/or increased certainty with development approvals.

Developers commonly used density bonus incentives to build more housing in the surest way possible. Los Angeles grants deviations and a clearer approval path in exchange for income-restricted affordable housing provided by developers. For an increasing share of developers this is a worthwhile trade. Los Angeles is expanding this approach with its new transit-oriented affordable housing incentives, which provide more generous allowances and lower affordable housing requirements near rail stations and other major transit stops.

EVIDENCE ABOUT HOW PLANS AFFECT HOUSING CONSTRUCTION AND PRICES

While my study did not assess how local regulations affected housing prices in the Vermont/Western or Koreatown areas, we can glean evidence from other recent research. The report "[Analyzing the Economic Benefits and Costs of Smart Growth](#)" - led by UC-Berkeley's Dan Chatman and of which I'm a co-author - analyzed how the Vermont/Western Specific Plan influenced local housing production and prices between 2000 and 2010.

The plan resulted in some residential development that would not have been built in the plan's absence. There was a net increase of 696 housing units, representing the loss of 198 single-family units and the gain of 894 new multifamily units. About 22% of these new units were affordable housing. We estimated that between 246 and 496 housing units were built because of policies in the plan. The plan enabled residential development in new areas, and increased allowable densities for mixed-use developments. The plan also reduced off-street parking requirements, which reduced construction costs, enabled more land area to be devoted to housing, and led to more adaptive reuse of existing buildings.

The plan likely affected housing prices in different ways. On one hand, the plan allowed housing to be built with less parking and added modestly to new housing supply, which may have lessened the rise in rents and sales prices. On the other hand, new amenities in the area - retailers, services, and an improved pedestrian environment - likely increased local housing prices. We found that the plan produced net benefits for all residents, though the annual benefits ranged from a few dollars for low-income renters to several thousand dollars for area homeowners.

POLICY IMPLICATIONS

There are debates across the United States about the best regulatory strategies for encouraging infill development. One camp argues that cities should ease density requirements and "get out of the way" of development near transit. The other argues that cities should establish baseline regulatory floors and ceilings, and then require developers to provide public benefits if they wish to exceed these limits. The efficacy of either approach depends on an understanding of how developers actually respond to regulations in different contexts.

The fundamental question is what kinds of written regulations and implementation approaches will get a city closest to its equity, environmental, and economic goals. Los Angeles, like many American cities, wants to grow around transit to reduce driving and auto congestion, increase transit ridership, and add affordable housing. The first step in linking planning and regulation with societal outcomes is to understand how regulations actually shape the built environment.

Again, written regulations are only part of the puzzle. The rest of the puzzle is figuring out how regulations are implemented. Cities and states should design planning and zoning systems that are fair and predictable for both existing residents and developers. Land use regulations must follow planning, and the goal should be to marry proactive planning with supportive zoning requirements and straightforward approval processes.