

RULES OF ESTRANGEMENT***Local Land Use Regulation in the San Francisco Bay Area***

Nils Kok, Paavo Monkkonen, and John M. Quigley - 2014

Brief by: Nathan Holmes

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Conventional wisdom would suggest that housing construction in the Bay Area must be booming in the 21st century as developers respond to a growing economy flush with well-paid tech workers. Yet compare new housing development rates in the Bay Area to places like Houston or Atlanta and the coastal metropolis lags far behind, and this discrepancy lends credence to the view that the Bay Area's relatively strict regulatory environment plays a large role in reducing the supply of housing. This paper uses a new source of intra-metropolitan data on land prices to assess such a claim by examining the influence of land use regulation within the Bay Area housing market.

RECOMMENDATION

Regulatory barriers in the form of multiple project approvals and reviews play a critical role in the San Francisco Bay Area's housing crisis. Rather than focus on how the existing supply of housing is apportioned, planners and policy makers should focus more explicitly on reforming a stringent regulatory environment that limits the supply of new housing.



STUDY

We use new data recorded by city and county assessors on the sales prices of parcels of vacant land and “teardown” parcels to examine how land use regulations shape land and housing prices within the San Francisco Bay Area. Where previous research has been limited in the size of its data pool, we were able to match 7,358 land parcel sales to multiple relevant attributes, including local regulations, topography, and access to jobs.

MAIN FINDINGS

- The connection between land use regulations and higher land parcel prices is strong in the San Francisco Bay Area. The variation in the restrictiveness of the legal and regulatory environment across cities strongly correlates with the value of land, even after controlling for a suite of demographic and other local characteristics.
- In particular, Bay Area cities that require a greater number of independent reviews to obtain a building permit or zoning change have higher land prices. Higher land prices are also reflected in higher transaction prices of single-family homes.
- Findings confirm the existing understanding in the field that differences in topographic, economic, and demographic dimensions are strongly associated with land prices. For instance, in the San Francisco Bay Area a topographic factor like the distance of a parcel to an earthquake fault line was found to clearly correlate with land prices.
- Our results contrast with another recent study of land use regulations, which found that the correlation between greater regulation and higher housing prices in the cities of the Boston Metropolitan Area disappeared after controlling for socioeconomic and demographic factors. In the San Francisco Bay Area, it is likely that the amenity effects of regulations work in tandem with a lack of close substitutes in the broader metropolitan area to push up land prices.



Kok, Nils, and Paavo Monkkonen, and John M. Quigley. “Land use regulations and the value of land and housing: An intra-metropolitan analysis.” *Journal of Urban Economics*, May 2014, Volume 81, pages 136-148.