

# UCLA ECONOMIC LETTER

## REAL ESTATE AND THE MACROECONOMY



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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. In this November 2022 Letter, Michael Manville, Associate Professor of Urban Planning at the UCLA Luskin School of Public Affairs, outlines improvements that may come from California's recent reduction of parking requirements at many housing developments.

## Less Parking, More Options

Some Housing and Transportation Advantages to Expect from AB 2097

By *Michael Manville*

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In September, the State of California passed [Assembly Bill \(AB\) 2097](#), which prohibits local governments from requiring parking with developments near public transportation. AB 2097 is a long-sought reform, and an important step in addressing some of the state's most pressing problems. Parking mandates can seem mundane, but by now a sizable research literature suggests they undermine housing affordability, encourage driving, and discourage walking and public transit use. Rolling these requirements back is thus a big change, and essential to meeting California's affordability and sustainability goals.

*"Ending parking mandates could usher in a new age of missing-middle development. This includes beloved typologies such as townhomes, garden apartments and bungalow courts sometimes called 'gentle density'."*

Even big changes, however, can take time to unfold. In this Economic Letter, I'll discuss how AB 2097 might play out. I'll focus mostly on housing, but also include some remarks about transportation. Before proceeding, let me reiterate Yogi Berra's famous warning: "It's difficult to make predictions, especially about the future." What follows is informed speculation.

First: we probably *won't* see a tidal wave of new buildings with no parking at all. AB 2097 doesn't ban *parking*. It bans parking *mandates*. Local governments are no longer allowed to require parking on-site with every new building. But developers remain free to provide parking if they choose, and so long as housing consumers (or developers' lenders) want buildings with parking, most developers will provide some.

So what will happen? Parking requirements impact development in two ways: they often mandate more parking than developers would provide on their own (i.e., more than what developers believe consumers demand), and they require the parking to be located on site. At best, these factors can push the amount of housing a multifamily parcel can hold below the amount it is nominally zoned for. A parcel zoned to allow 20 units, for example, might actually be able to accommodate only 15, because it is impossible (financially or geometrically) to fit 20 units *and* their required parking spaces onto the lot. At worst, parking requirements can make redevelopment on some parcels completely infeasible. This is particularly likely to happen with smaller, infill parcels with little room to hold required parking. On these sites, once the parking is built, there is not enough space or budget to make the development worthwhile.

Losing a few housing units here and there, or even the occasional parcel, may not seem like a big deal. Multiplied over many years and many thousands of parcels, however, these small losses add up, yielding the quiet epidemic of underdevelopment that birthed California's housing crisis.

Parking requirements are a classic example of command-and-control regulation. The government identifies a problem (people want parking) and then also mandates a solution (all developers provide a minimum amount of parking on their parcels). Ending parking requirements doesn't change the problem (lots of people still want parking) but it *does* let developers be creative and flexible in the solution. Some can and will provide parking on-site. But they might provide less than a parking requirement would have mandated, and by providing less parking they will be able to build more housing. Other developers might not offer parking on-site, but instead lease underused spaces in a garage down the street and offer them to residents. Still others might provide little to no parking on-site, and offer carshare memberships to residents. Any of these approaches would unlock underused parcels and let them be redeveloped, while still addressing the consumer demand for parking.

And some developers will, in some places, build without any parking at all. The fact that most people want residential parking doesn't mean everyone does. The people who don't, moreover, haven't been well-served by the housing market; parking requirements have made their preferred form of housing illegal for decades. Underserved markets are profit opportunities, and developers like profit. (Skeptics might observe that this market is small; true, but developers don't need an objectively huge market. They need a market big enough to fill their buildings).

How quickly will this new development occur? In some markets, for some types of housing, change could come fast. San Diego offers an example. The city abolished parking requirements near transit in 2019, and saw a large increase in new units (both market rate and affordable) within the next year.

In other places, or for other kinds of development, change could be slower. Whenever the state passes a housing law, both developers and local officials need to figure out exactly what they do and don't allow. Sometimes laws have vague provisions that need interpretation, and sometimes local governments try to exploit that vagueness and undermine the laws' intent. The resulting uncertainty can chill investment. It isn't uncommon for state housing laws to need tweaking-closing loopholes and adding clarifying language-before they become effective (California's state law legalizing Accessory Dwelling Units is a good example).

Another potential obstacle is that California's development industry may not be set up to quickly build some of what AB 2097 will allow. Consider "missing middle" housing: beloved typologies such as townhomes, garden apartments and bungalow courts. Sometimes called "gentle density," these buildings can offer more space than typical apartments, alongside amenities similar to single family homes, but do so at a lower price while blending in more seamlessly with single-family neighborhoods. Parking requirements, however, make them hard to do (The townhomes of Boston or Philadelphia are lovely, but their continuous form and shared walls mean they often have little parking).

Ending parking mandates could usher in a new age of missing-middle development. But the “missing middle” gets its name for a reason. It’s been a long time since we’ve built gentle density at any scale. Big established developers generally build single family homes or large apartment buildings, and have tested business models and off-the-shelf designs for these structures. That’s not necessarily the case for town homes or fourplexes, and it isn’t clear how quickly these firms can or will pivot to take advantage of the law. It also isn’t clear how easy it will be to finance such a pivot. A developer is, almost intrinsically, a person with a higher-than-average tolerance for risk. A developer’s lender, in contrast, is not. Lenders are more comfortable investing in projects that have a track record of high returns, and this conservatism can slow the pace of experimentation and change.

Some recent history suggests one way this could play out. In 1999, Los Angeles implemented an Adaptive Reuse Ordinance (ARO) in its downtown, which exempted developers from parking requirements if they were converting old underused office buildings to housing. These buildings, many from the 1920s, often occupied their entire lots, and had little room for parking. Parking requirements thus prevented their reuse. Developers did not, however, take to the ARO all at once. New housing without parking was risky, so at first just a handful of developers tried it, and often did so with private funding, since big banks were reluctant to lend. As ARO units opened and steadily sold, however, more developers wanted to build them, and lenders became more comfortable financing them. Soon thousands of new units, many with little or no parking, were online in Downtown LA. In many parts of California, a similar learning curve could take place with AB 2097.

A brief word on what AB 2097 means for transportation. When local governments require all new buildings to have parking, they don’t just increase the cost of development. They also *reduce* the cost of driving. Most cars are parked most of the time, so parking is one of the largest costs of owning and operating a vehicle. Parking requirements move that cost away from drivers and hide it in the cost of building. That makes driving artificially inexpensive and more convenient, and it also—by making the resulting built environment less dense—makes walking and transit use *less* convenient. All else equal, cities with parking requirements will have more driving, and thus more congestion and pollution, than they otherwise would.

Ending parking requirements is a first step in undoing these distortions, and leveling the field between automobiles and other ways of moving around. Here too, change will take time. In most of California, parking requirements have been enforced since the 1940s. Eighty years of bad policy can’t be undone overnight; it’s possible, in fact, that some damage done by parking requirements will never be reversed. But the damage *definitely* won’t be reversed so long as parking requirements remain intact. In that respect, AB 2097 is a welcome reform. Almost any path it puts California on is likely to be better than the path it was on before.

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