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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 July 2023 Letter, California State University, Northridge, Assistant Professor of Economics Edward Kung and UCLA Ziman Center Director Stuart Gabriel preview their analysis of harmful delays in Los Angeles housing approvals and what can be done to reform the entitlement process.

The full report – Tackling the Housing Crisis: Streamlining to Increase Housing Production in Los Angeles – is available [here](#).

Unaffordable Delays:

How the Approval Process Has Worsened L.A.'s Housing Crisis, and How to Fix It

By Edward Kung and Stuart A. Gabriel

As Los Angeles confronts an affordability crisis, rising homelessness, and ambitious state-mandated housing goals, streamlining the entitlement and approval process would dramatically accelerate multi-family housing production, according to a landmark study that details bottlenecks and identifies potential policy reforms.

The [study](#) examines why Los Angeles has long failed to keep pace with housing demands of a growing population. California's Regional Housing Needs Assessment (RHNA) estimates the City must add 456,643 units from 2021 to 2029 – a five-fold increase over the 83,865 units produced from 2010 to 2019. That means completing 57,000 units per year on average, compared to less than 9,000 units annually last decade.

The data showed that less than 60% of multi-family projects issued permits since 2010 have been completed – requiring an average of 47 months. On a per-unit basis, only 71,532 of 120,213 approved units were completed – taking an average of 60 months per unit. Mixed-income housing projects took longer than both strictly affordable units and market-rate units. Variability in approval times due to discretionary reviews had the greatest impact on

total development time. LADWP service connections were the second most impactful factor in the housing development process, with underground installation adding 245 days on average and overhead work 140 days in a project's overall development.

"To help the City reach its ambitious housing goals, we recommend that the City markedly expand by-right pathways for the entitlement of new housing."

We found that reducing approval time by 25% would have led to 18,049 additional completed units, a 25.2% gain over the baseline, by accelerating projects already underway and incentivizing new development.

The findings provide empirical evidence that recent and proposed measures, including Mayor Karen Bass's Executive Directive No. 1, which fast-tracks approval of affordable housing projects, and state laws that exempt qualifying mixed-income projects from discretionary reviews, would have added a significant number of housing units during the period we reviewed. We recommend extending these and similar measures to mixed-income and market-rate housing, creating more by-right pathways for housing development, and increasing coordination among city agencies. Such reforms would streamline approvals, thus adding certainty to the approval process, which in turn would lower costs, accelerate housing production, and stimulate investment in the sector.

The average completed project spent 549 days in approval time and 863 days in construction time, for a total development time of 1,413 days (3.9 years) from first entitlement or permit application to Certificate of Occupancy. Since larger projects take longer to complete, the completion time of an average dwelling unit is even longer than for an average project. The average dwelling unit took 1,784 days (4.9 years) to complete.

In addition to long timelines for project development, there is also a significant amount of uncertainty. Although the average development time for a finished project was 1,413 days (3.9 years), one in four took longer than 1,739 days (4.8 years) to complete. Most of the variability in total development time (64.1% of it) is explained by variability in approval times. Moreover, the variability in development time is not simply due to predictable factors. We estimated a model of development time that takes into account the observed characteristics of the project. We found that these characteristics could explain only 24.7% of the variation in development times.

Besides reducing costs, one of our key findings is that reducing approval time can, by itself, increase the rate of housing production, without having to assume anything about cost savings or new project starts. Reducing approval times by 25% would have resulted in an additional 10,054 units completed by November 28, 2022, a 14.1% gain over the baseline of 71,532 completed units. This gain comes entirely from accelerating projects that had already started but have not yet finished as of November 28, 2022. It does not include any increase to housing production from new developments that are likely to occur if approval times are reduced. We therefore call this effect a "pull-forward" effect.

We estimate that the magnitude of this pull-forward effect is to increase the rate of housing production by 14.1% if approval times were shortened by 25%. If the pull-forward effect is also combined with the effect of incentivizing new development as estimated by a 2022 study*, then we estimate housing production would increase by 25.2%.

RECOMMENDATIONS

The full report details six essential ways to expedite both affordable and market-rate housing approvals and construction in Los Angeles. These recommendations are summarized here:

To help the City reach its ambitious housing goals, we recommend that the City create as many by-right pathways as possible for the entitlement of new housing. This can be done by exempting projects from Site Plan Review and adopting an area-wide master plan and blanket EIRs. Besides entitlement reform, we also recommend that the City provides resources for expediting power connections to multifamily housing developments. Although the focus is on producing affordable housing, we recommend that the City also consider streamlining the development process for workforce, middle-income, and market-rate projects. Technology should be leveraged to increase coordination and transparency between developers and city departments, and measures should be taken to improve case management and accountability within departments. Finally, scaling up the production of housing will require adequate human resources. We recommend that the City evaluate its staffing needs so that the above reforms can be implemented.

FIGURE: DEVELOPMENT TIME FOR COMPLETED PROJECTS
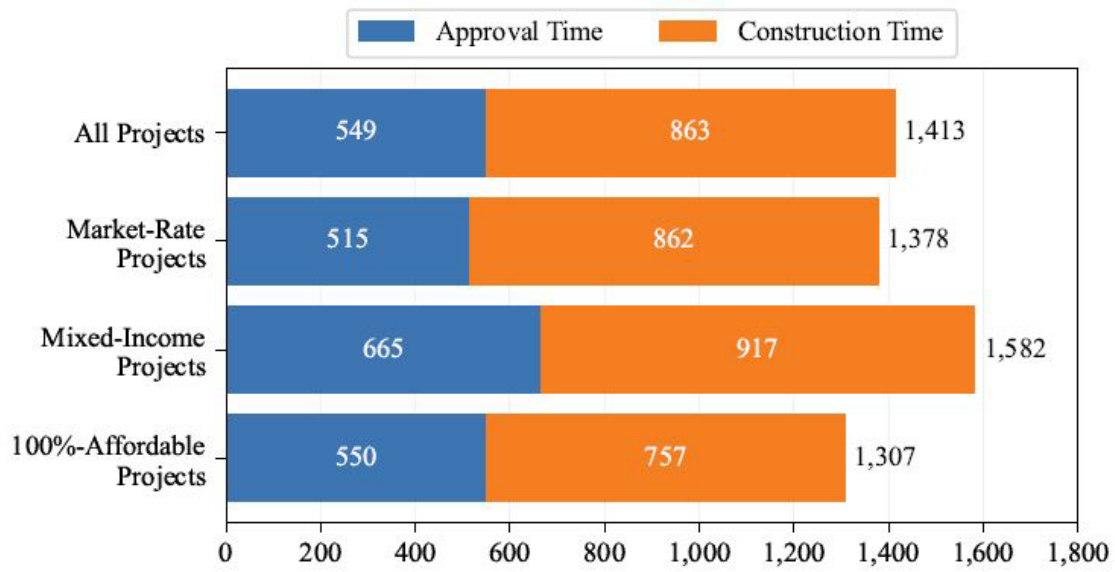
Source: Authors' calculations.

Casey, Alexander, Ben Metcalf, David Garcia, Haley Rebecca Tiu, and Issi Romem, "Modeling New Housing Supply in Los Angeles: Simulations from the Terner Housing Policy Dashboard," Policy Brief, Terner Center for Housing Innovation at UC Berkeley 2022.