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Evaluating the Potential for Building 5- to 10-Unit Housing Projects Across California

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Evaluating the Potential for Building 5- to 10-Unit Housing Projects Across California

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Issue

California is facing an affordable housing crisis that warrants innovative policy solutions and timely action. Despite recent legislative efforts to expedite and expand housing development, many jurisdictions still fail to meet critical supply goals and the increasing demand for affordable housing. Much of this shortage can be attributed to a long history of restrictive land use policies. Most land in California, particularly in high-resource areas, is primarily zoned for single-family homes. Local lawmakers have acknowledged the restrictive nature of these zoning regulations and sought to encourage additional unit development on single-family properties.

California passed Senate Bill 9 in 2021, allowing for the development of up to four units on single-family zoned parcels. However, housing professionals and recent studies indicate that the requirements and restrictions of SB 9 do not allow for financially feasible development. Accordingly, the overall impact of SB 9 remains unclear.

Given feasibility concerns with proposed SB 9 projects, this research explores whether larger developments, with five to 10 units, are more financially feasible on parcels currently zoned for single-family homes in California. This project also explores whether opportunities exist to improve the feasibility of small multifamily housing development. Such development is necessary to address the housing affordability crisis, as these projects can offer environmental and economic benefits, as well as greater housing choices to meet the needs of changing demographics.

Study Approach

This research study consisted of semi-structured interviews with over 22 housing professionals and a financial analysis that used a pro forma model for various 5- to 10-unit project scenarios in primarily single-family zoned areas in San Francisco and Los Angeles, all modeled under existing economic and design conditions.

Research Findings

- **Senate Bill 800 has made rental projects more attractive.** SB 800, which requires builders to address construction defects for up to 10 years, creates additional liability for developers pursuing for-sale projects. As a result, rental projects, where the developer maintains ownership are most attractive for many developers to consider.
- **Building codes that allow for single-stair and vertical shared access offer promising development opportunities.** Existing building codes for egress and stairway requirements significantly affect small-scale infill development, resulting in smaller units with less opportunity for natural sunlight and cross-ventilation. Allowing for single-stair or vertical shared access design can better accommodate additional and larger units, improve ventilation, increase access to sunlight and green space, and allow for more efficient building such as modular construction.
- **There is an overarching lack of clarity from legislation, policies, and local planning departments.** The confusing nature of housing development legislation at the local and state level often makes it difficult for industry professionals who rely on new policies and programs to build infill housing, particularly small multifamily housing development. Upzoning measures alone cannot encourage

Figure 1.

San Francisco Residual Land Value Compared to Expected Acquisition Cost

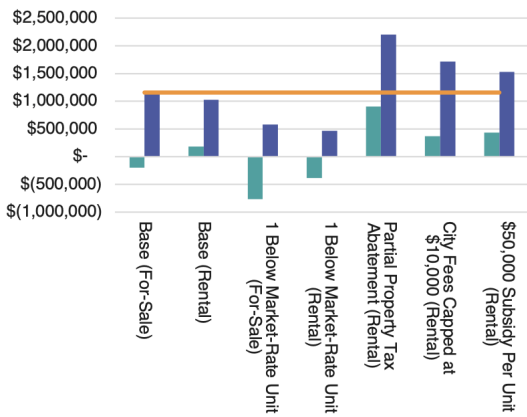
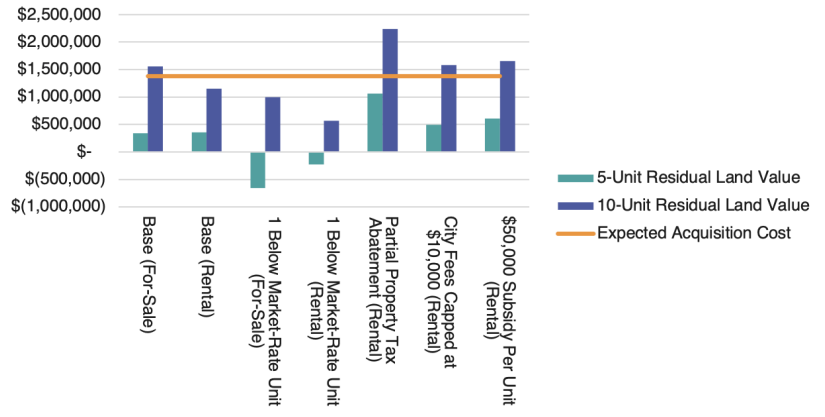


Figure 2.

Los Angeles Residual Land Value Compared to Expected Acquisition Cost



development. Further, legislation changes without clear implementation measures can make it difficult for local planning departments, especially those with limited staff availability, to facilitate such changes efficiently.

- **In San Francisco and Los Angeles, most 5- to 10-unit project scenarios are not financially feasible** since the residual land value would be less than the expected acquisition cost. Residual land value is the net value available, or how much a developer could afford to pay for land acquisition, after accounting for project development costs, revenue from the rent or sale of units, and a minimum return. Figures 1 and 2 show a more detailed breakdown of the project scenarios’ residual land value under different circumstances. Notably, none of the modeled five-unit projects in San Francisco or Los Angeles would be financially feasible. Additionally, most 10-unit rental projects in Los Angeles would require reduced city fees, a partial property tax abatement, or a per-unit subsidy to be financially viable for developers.

- **Update building codes to allow for single-stair and vertical shared access.** Like other cities in the United States and beyond, California should revise its building code standards to encourage lower cost and more efficient multifamily housing developments on smaller lots without sacrificing fire safety.
- **Revise local development regulations such as height and floor area ratio standards.** Incompatible physical design requirements can discourage multifamily developments on smaller lots. Revising development standards to be more conducive for 5- to 10-unit projects can create more explicit expectations, reduce the need for variances and remove barriers to allow for a streamlined compliance review and quicker overall development process.
- **Implement fee waivers or cap city fees for development projects with 10 or fewer units.** Small unit addition projects are often subject to the same fees as larger-scale developments, requiring significant capital for upfront costs that may exceed expected returns. Implementing fee waivers, deferrals, or capping city fees would help alleviate the financial burden currently associated with pursuing development of 10 or fewer units.

Recommendations

- **Increase allowable density to 10 units on lots currently zoned for single-family residences in high-opportunity areas.** California should focus on targeting single-family zoned lots in high-opportunity areas and encourage development of small multifamily projects of up to 10 units. In doing so, the state will expand the availability of affordable and equitable housing choices in previously exclusive residential areas.

For More Information

Biro, E. (2023). Building small: Assessing feasibility of 5-to-10 unit projects in California (Master’s capstone, UCLA). Retrieved from: <https://escholarship.org/uc/item/0211793g>