

August 31, 2019

Honorable Bill Jahn  
President, Regional Council  
Southern California Association of Governments (SCAG)  
900 Wilshire Blvd., Suite 1700  
Los Angeles, CA 90017

via email: [housing@scag.ca.gov](mailto:housing@scag.ca.gov)

Re: Regional Housing Needs Assessment (RHNA) Allocation Methodology

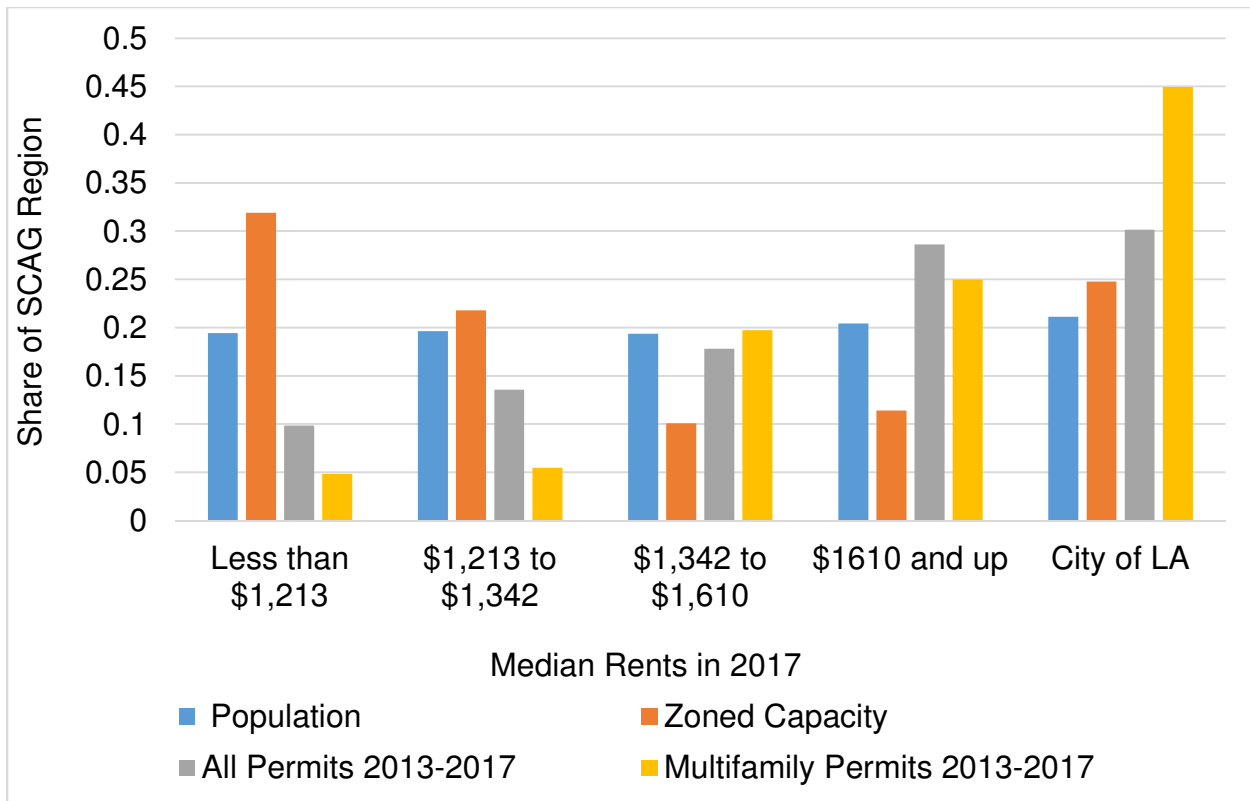
Dear President Jahn,

This technical note explains why increasing zoned capacity in cities with housing high demand is important if increasing overall housing production is a regional goal – and several reports and presentations by the Southern California Association of Governments say that is. Little housing is built in cities with low demand, and currently there is relatively little zoned capacity in cities with high demand.

Figure 1 shows the problem. The figure sorts SCAG's cities into four groups of similar population size ranked by their median rent (as reported in the American Community Survey). For each group, I report population, recent permitting activity, and zoned capacity (taken from each city's 5<sup>th</sup> cycle Housing Element). I separate the City of Los Angeles from the rest because it is such an outlier in terms of size, construction, and zoned capacity.

The figure clearly shows that in the lower rent cities, there is relatively more zoned capacity and very little housing construction. In the higher rent cities, in contrast, there is relatively less zoned capacity but relatively more housing construction. The City of Los Angeles is in a category by itself - it accounted for almost half of the region's permits between 2013-2017 despite being only one fifth of the regional population.

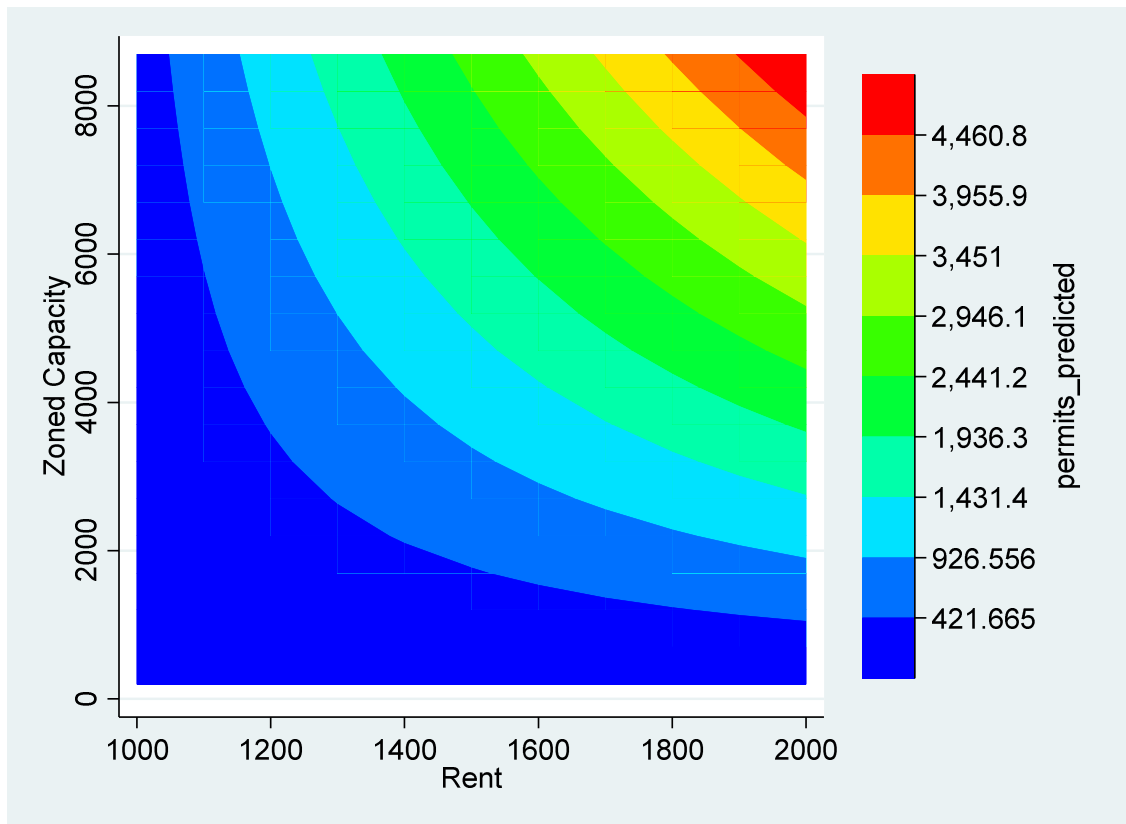
The major takeaway from Figure 1 is that demand matters. Despite their lower zoned capacity (and their tendency towards more burdensome permitting processes), more housing is built in cities with higher rents. Adding zoned capacity in these cities is therefore likely to create more housing production than adding zoned capacity in low demand cities.



**Figure 1. Population, Zoned Capacity, and Permits 2013-2017 for Cities in SCAG region, grouped by rents. \*City of LA separated because it is an outlier.**

To quantify this relationship between demand, capacity and production, I first regress the log of permitting activity between 2013 and 2017 on the log of rent and the log of zoned capacity (for 186 of SCAG’s jurisdictions with data), controlling for population. The results show that an increase in rent of 1% is associated with an increase in permitting of 1.1%. An increase in zoned capacity of 1%, meanwhile is associated with a smaller increase in permitting, of 0.3%.

As Figure 1 suggests, however, these two-way relationships tell only part of the story. The relationship between zoned capacity and permitting is conditional on rents (which are a measure of demand). To estimate this relationship, I regress the permitting activity between 2013 and 2017 on rents and zoned capacity as well as an interaction term of the two variables. Figure 2 below is a contour plot that shows the results of this model. The different colors indicate different levels of permitting activity at different combinations of rents and capacity.



**Figure 2. Results from a Regression of Permits 2013-2017 on Rents, Zoned Capacity, an Interaction of the two, and Log Population for 186 cities in SCAG**

What does Figure 2 show? Imagine a city with a rent of \$1,200. If it went from a zoned capacity of 2,000 units to 6,000 units, its permitting rate would roughly double, from around 400 to 800. However, if a similar city with rents of \$1,800 saw the same zoned capacity increase (from 2,000 to 6,000 units), its permitting would almost quadruple, jumping from 800 to 2,800. Zoned capacity packs a lot more punch when demand is higher.

In the past, SCAG has allocated disproportionate amounts of its regional housing need to cities with existing zoned capacity – and low demand for housing. This has likely had no effect on housing production. Fortunately, if the allocation of regional needs in the 6<sup>th</sup> cycle follows statutory guidelines – especially reducing cities’ jobs housing imbalance – it can increase the needed housing production in our region.

Sincerely,

Paavo Monkkonen  
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 Vice-Chair, Department of Urban Planning  
 UCLA Luskin School of Public Affairs