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Housing Affordability in the City of Los Angeles: A Closer Look Into The Small Lot Subdivision Ordinance

**Abstract**

Housing affordability in the City of Los Angeles has grown to become one of the most pressing issue the city had to face this past fifteen years, and it is only getting worse with the exponential population growth. The Small Lot Subdivision Ordinance was implemented in 2005 in the Los Angeles as part of the effort to combat the housing affordability crisis. This paper looks at the housing affordability crisis at hand, weighs the opinions of the proponents and opponents, and what the ordinance has done so far, to see if this ordinance proves to be a viable solution making housing more affordable from Los Angeles residents. Ultimately, the paper finds that The Small Lot Subdivision Ordinance alone is ineffective, thus must make amendments to it in addition to proposing other solutions.

**Introduction**

To own a mansion or luxurious condominium may be a privilege, but having a shelter is a necessity for well-being. Nevertheless, despite the attractiveness of the city, Los Angeles has only been struggling to offer affordable housing for its inhabitants. In fact, as of 2015, Los Angeles renters on average spend 48.9% of their income on rent, while citizens and denizens are usually expected to spend around 30% or less of their monthly income on rent, and 15% of their income if they were buyer with monthly mortgage payment (Zillow). Anything above 30% of income on rent is considered to be “cost burden.” Spending half of their income on housing means that Los Angeles denizens must drastically cut down on other expenses and necessities, such as food and healthcare, or compromise their living situations by working more than one job and or commuting hours for cheaper housing. It is no coincidence that in conjunction to 4.5% increase in cost of rent since 2015, homelessness in Los Angeles increased 20% and people living in their cars increased by 50% (Hall and Chiland). Thus, in the grand scheme, housing affordability affects inhabitant’s quality of life, accessibility to jobs, and even commuting patterns and sprawl, making housing affordability a pressing issue to resolve.

The core of the housing affordability issue simply lies in the housing price, which is influenced by supply and demand; however, ratio of household income to house price also largely attributes to this issue in Los Angeles. In other words, housing affordability is the problem of having the highest rent *relative* to the average income of its residents. This particularly puts more distress on low-income and even middle-income households. Such that in Los Angeles/Orange County metro, almost 91% of residents who make $15,000 to $30,000 are considered “cost burdened,” which means they spend more than 30% of their income on rent (Barragan). In hopes to alleviate the cost burden of Los Angeles residents, along with other problems of the city especially faced by low-income residents, Mayor Garcetti of City of Los Angeles and the city council voted to raise the minimum wage of Los Angeles workers from $9 to $13.25 per hour by 2017, and to $15.25 by 2019 (The Times Editorial Board). While city officials were convinced that higher minimum wage would address the affordability issue, many economists think otherwise. Not only one will need to earn at least $33 an hour to afford an average apartment in Los Angeles County, Christopher Thornberg, a renowned economist and the founder of Beacon Economics, warns that landlords will merely raise rent prices when the minimum wage is raised, thus this solution would actually be counter productive. Rather, the positive impact of raising minimum wage would be felt in the surrounding cities, and Los Angeles itself will feel *more* of the negative effects, including slow job growth and reduced tax revenues. Likewise, Michael Reich, director of Research on Labor and Employment at UC Berkley, adds that there is no data that proves that minimum-wage levels have an effect on housing (Greenblatt). Although Los Angeles may end up showing that minimum wage will have a positive effect on improving housing affordability, the process of knowing the effect will take five to six years, during which Reich agrees that housing prices will still continue to increase. Rising income is one way to begin to balance out housing affordability, but in order to feel the benefits of higher minimum wage, the City of Los Angeles must do this in tandem to increasing affordable housing supplies and increasing the density of neighborhoods.

With the supply and demand economic principle, one of the ways the city can combat the affordable housing issue is by simply increasing the number of housing to meet the demand, which the city recognized to do. As the population in Los Angeles continues to increase because of growing job opportunities, housing remains to be unaffordable because the number of vacant homes remains to be low while the population continues to increase. In the last quarter of 2015, Los Angeles’s housing vacancy rate was 2.7%, whereas the national and the “healthy” vacancy rate is 7% (KPCC). Such low vacancy rate often result in landlords to keep prices high because there is essentially a guarantee that in popular cities like Los Angeles, even if a tenant leaves, many would be fighting for the new vacancy. The low vacancy rate shows, once again, the dire need for the city to increase the number of housing.

**Small Lot Subdivision Ordinance**

Since 2000, the city’s planning commission, Housing Crisis Task Force, reviewed more than 60 proposals in an effort to increase housing supply and decrease housing price. In 2005, the City of Los Angeles passed the first *Small Lot Subdivision Ordinance*, which amended the Los Angeles Municipal Code. The ordinance applies to all multifamily and commercial zones, but does not apply to single-family zones. It stripped away parking requirements that required homes to have parking spaces in the same lot, took away the yard setback requirements between each homes, and allowed one parcel to be subdivided to one, two, or three dwelling units as long as it did not exceed the unit requirement set by the underlying zone (HUDUser). Most importantly, the ordinance reduced minimum lot sizes. In theory, this ordinance addresses housing affordability crisis because it allows developers to speed the process of building more new homes in a smaller space compared to in the past. This ultimately allows for a more financially diverse population by providing more housing options and increasing density. For a nearly built-out city like Los Angeles, this seems like the most viable option for the city to produce more housing supplies, and tackle the affordability issue.

Proponents

Small Lot Subdivision Ordinance presents a huge economic opportunity for real estate developers and investors. Because the ordinance applies to multi-family and commercial zones, developers can now take advantage of underutilized commercial land to provide Los Angeles denizens with more housing options without needing to use new land. The policy also allows for mix-land use as long as the building in that lot combines commercial use on the bottom floor and residential use on the top floor (LADCP). This allows for an opportunity for the developers to create more revenue per acre pulled from variety of avenues such as commercial vendors and home sales. Unlike condominium projects, developers are also not subjected to Homeowners Association (HOA) fees and additional insurance costs because small lot developments can be constructed without common walls or foundations (HUDUser). Meaning, developers are now able to accumulate a larger profit in a more space and cost efficient manner. When developers apply for permits for these projects, however, they must go through an extensive multi-departmental approval process from the City of Los Angeles, which can take up years. Nevertheless, the investment return can be seen to be much greater for the developers once attain the approval.

For landlords, the ordinance is appealing because it provides them the leeway to demolish their existing buildings, particularly if the building is rent stabilized, in exchange of building newer, more profitable small homes. Rent control laws were implemented in 1978, which limited landlords from raising their rent above 3% in a given year if their building was before October 1, 1978, and any replacement units under the LAMC Section 151.28 (City of Los Angeles). Those living under the ordinance units pay on average of $1,612 per month, which is $602 less than the average market rate. Landlords usually only get investment dollars when units go for market-value. Meaning, while rent control largely benefits tenants, it rarely does the same for landowners because they can barely adjust their rent value based on inflation. The Small Lot Subdivision Ordinance, thus, prompts landlords to invoke the Ellis Act, which allows landlords to evict tenants if they are going out of the *rental* business, and build many small lot homes in place for sale (Bergman). These small lot homes are much more beneficial for landowners because the homes can be sold at a much higher value than it can be rented out in a rent-stabilized condition.

The ordinance also presents an opportunity for residents to a tight-knit and environmentally friendly community. The ordinance builds on the idea of “smart growth,” meaning that it creates an “economically prosperous, socially equitable, and environmentally sustainable” neighborhoods--city in the grand scheme--by increasing the density of residents by adding more housing, making the neighborhood walkable, and allowing more different uses for the land (Smart Growth America). Not only does smart growth help alleviate the housing affordability crisis, but it is also helps the neighborhood adapt to the desires of a more environmental and health conscious millennial generation, who is the rising generation that will be the ones buying and renting homes.

Opponents

Contrary to community groups that favor the Small Lot Ordinance in argument that it provides a stronger sense of community, critics include neighborhood residents and council who works to preserve the character of their neighborhood. Currently, the ordinance provides some guidelines on how the architects and developers should design the homes and the community; however, these guidelines are merely guidelines and not laws. So, more often than not, developers implement modern cookie-cutter lots, which stands out particularly in older residential neighborhoods as it is stylistically at odds with the rest of the neighborhood’s character (The Eastsider). For example, Silverlake, one of Los Angeles’ “hippest” neighborhoods, have recently been flooded with investors and real estate developers trying to utilize the ordinance to build more homes due to popular interest by potential homebuyers. Figure 1 shows the design of the most recent home development in Silverlake--includes ten small lot homes--opened on April 22, 2017, led by KTGY Architecture + Planning (Sharp 2017).



**Figure 1.** Rendering by KTGY Architecture + Planning

The design above embodies a typical small lot design--compact, modern, and identical--seemingly nothing wrong with the design. However, compared to the designs of a typical Silverlake homes, the small lot home design is extremely out of place. Silverlake homes are spaced out and usually takes form of a bungalow. Even the condominiums and apartments look more retro than modern.



**Figure 2.** Silverlake homes

City Councilman of Silverlake, Tom LaBong, says that these new developments destroys the character of their neighborhood as the architecture of these buildings typically are too modern and “incompatible” with the neighborhood surroundings (Scheinbaum 2015). Although the aesthetics of buildings do not affect housing prices, it is an important aspect to consider if developers want to gain more support from the neighborhood members.

Similarly, a large number of NIMBYs (Not In My Back Yard)--term for local residents against certain real estate development in their area--began to revolt more in wake of the Small Lot Subdivision Ordinance because of the increase in infill housing. Under the ordinance, there is an increase in infill housing with no parking requirement or yard requirement increase, thus ultimately increasing the density of a particular neighborhood, which is exactly what the NIMBYs are fighting against. NIMBYs choose their neighborhood for a reason: the medium-density with a neighborhood character that cannot be offered elsewhere. Recent developments such as five-home development on Hyperion Avenue in Silverlake, have been shut down by the NIMBYs attending council meetings because such developments are threat to their lifestyle (Humphreville). Some NIMBYs goes as far as saying that the ordinance disempowers the residents because high density and the lack of parking in a neighborhood causes traffic congestion and loss of privacy (Sharp). For NIMBYs, newly built homes built under the ordinance are a threat to their way of life they yearned for, and being able to provide housing for more people is less of a concern.

Contrary to its purpose, the most affected by this ordinance are the low-income residents. Take residents of the neighborhood of Silver Lake again for example: recently, Raquel Arias’ Silver Lake bungalow was demolished to be replaced with a small lot subdivision (Scheinbaum). In an area like Aria’s bungalow used to be, developers could fit 10 three-bedroom homes, each worth about $500,000 to $850,000. These prices are certainly not affordable to lower income families like Arias, so even if Arias family is allowed to come back, they are forced to move elsewhere because they can no longer afford the home in their area. On the other hand, these new homes will provide *more* affordable opportunities available to mainly middle and upper middle-income families, compared to if the city had decided not to do build any new housing at all. In these cases, it comes down to the matter of who the city wants to help more: the middle and upper middle-income families, or the lower income families.

**Conclusion**

Reality

Proponents and opponents aside, is the housing price actually going down under the Small Lot Subdivision Ordinance? While more houses are homes are being built under the ordinance, the rate of the new homes being build is not fast enough for the City of Los Angeles to get out of the housing crisis. In fact, Los Angeles needs to build 70,000 to 110,000 additional unit each year, but only 2,500 homes have been built since the ordinance got enacted in 2005 to 2015 (Barragan). The slow rate of the houses being built can be largely attributed to the long bureaucratic process of developers obtaining the permit, as well as NIMBYs constantly shutting down these small lot projects. NIMBYs influence on small lot developments have been so severe to the extent that the entire state California is now looking to create a legislature against them (Libby). Due to such oppositions, it is difficult to achieve the full potential of the ordinance, which gives even more of a reason to address opposing stakeholders like the NIMBYs.

On top of not producing enough housing relative to the demand, the ordinance actually increased the home values in the neighborhoods these lots are being built. As a matter of fact, the median price per square foot of a small lot development is $99.80 higher than the mean of the entire Los Angeles City housing market (Smith). Even on a neighborhood level, the small lot development homes have higher value compared to other homes in the neighborhood the small lots homes were built since 2013. Therefore, Los Angeles should not depend on small lot developments to combat the affordable housing crisis. Even though there more housing options comparatively to the past, these small lot homes are likely more expensive because they are clustered in popular, sought after neighborhoods like Venice, the Valley, and Northeast Los Angeles (Smith 46). Meaning, by building more homes in an attractive neighborhood, they are adding more value to what is already valuable. Especially the new small lot developments, homes go for above the market price because there are many buyers who are still willing to pay the excessive value because that particular property does not exist anywhere else. If developers are willing to ease the housing affordability crisis, then they must consider building small lot homes in all sorts of neighborhoods, not just in neighborhoods that are already considered valuable.

Suggestions

The Small Lot Subdivision Ordinance has benefits such as creating more environmentally friendly communities by limiting sprawl, and slowly increasing density by increasing housing supplies. However, the ordinance is met with many challenges and opposition that ultimately makes it not the most viable option to combat the housing affordability crisis in the City of Los Angeles, contrary to the city’s intent.

For the ordinance to be the most effective, it must make many amendments that particularly addresses the opposing views. Without addressing the strongest opponent, NIMBYS, who also has the most power to stop the developments, Small Lot Subdivision Ordinance will never be successful. The ordinance can first mandate developers to follow neighborhood-specific construction guidelines on how to design homes that are small but still in character with the rest of the homes in the neighborhood. The city government does currently provide guidelines, but they are simply suggestions, thus does not require the developers to have that a particular design before they can start building the homes. Therefore, in order for the NIMBYS and the neighborhood council to more easily agree to the new developments, the city must require the developers to follow a strict construction guideline. Other opinions NIMBYS have, such as their concerns on increasing density of their neighborhood, are harder things to address because of the dichotomy between preferences of the residents and the necessity of the city. Perhaps the best way to address this is to make residents more aware of the housing affordability crisis as well as educating them of the social, economical, and environmental benefits that comes with being a high density neighborhood.

If the the Small Lot Subdivision Ordinance’s purpose is to make housing more affordable, the ordinance alone cannot be the solution, but it has to be used in conjunction to other changes outside of the ordinance. Luckily, the City of Los Angeles recognized that, and launched the “re:code LA” project, which revises city zoning laws to adapt to the increasing population, and simplifying project review procedures that would help with speeding up the process of getting development projects approved (The City of Los Angeles). The housing affordability crisis has too many facets for one ordinance to solve the issue. Although the Small Lot Subdivision Ordinance is a start, the City of Los Angeles has a long way to go before it can fully resolve the issue and make housing affordable for the masses once again.

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