



Conditional Use Requirement for Removal of an Illegal Housing Unit: Economic Impact Report

Office of Economic Analysis
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Introduction

- The proposed legislation would amend the Section 317 of the Planning Code to require a conditional use (CU) authorization for the removal of an illegal housing unit. Currently, only the removal of a legal housing unit requires a conditional use.
- A Notice of Violation for an illegal unit, from the Department of Building Inspection, would require a property owner to file a permit to legalize the unit, unless it is infeasible under the building code, or the Planning Commission approves removal of the unit under CU authorization.
- The legislation would also require compliance with landscaping and permeable surface requirements for residential merger and where addition to a building structure increases the existing gross floor areas by 20%.
- The office of Economic Analysis has prepared this report because the proposal could have material economic impact on the city's economy.
- In particular, limitation on demolition of illegal units could reduce the housing burden of low-income households, by maintaining a greater supply of housing at the low end of the private market.

Economic Impact Factors

- Building permit data suggests that illegal units are most often removed to expand an existing, larger, housing unit on the same parcel.
- By placing new restrictions on the removal of illegal units, the legislation would effectively expand the housing supply at the low end of the private housing market. This conclusion is based on the assumption that a CU authorization to remove an illegal unit would be no more likely to be granted than a CU authorization to remove an authorized unit.
- The result of that would be to put downward pressure on housing prices facing low-income households seeking housing in the city.
- On the other hand, limiting the removal of unauthorized units would inhibit the expansion of large units which are in demand at the upper end of the market. The resulting supply constraint at the upper end would tend to inflate prices at the upper end of the market. To the extent that supply is not expanded elsewhere (by increasing the attractiveness of upper-end properties in other ways, for example), then the price increase will be felt throughout the market.

Impact on Housing Prices

- The impact on citywide housing prices will depend on the number of illegal units removed each year. Unfortunately, since illegal units are unpermitted, data on the removal (and creation) of illegal units is indirect, and likely understates the extent of the activities.
- By analyzing building permit applications, the Planning Department has estimated that an average of 23 illegal units have been removed annually, over the 2004-14 period (see next page).
- If this trend is accurate and continues, the proposed legislation would lead to a decline in housing prices of 1% per year for 1-room housing units, on average over the next 20 years. This estimate is based on the total number of 1 room housing units currently in the city, as reported by the Census.
- On the other hand, the price increase at the upper end of the market is highly uncertain, because we lack data on the size of units that have been merged with an illegal unit, and how the supply constraint would ripple through the housing market. If these units would generally have 6 rooms or above after merger, then prices for those largest housing units in the city could increase by 0.02 to 0.04%, on average over the next 20 years.
- The net impact on citywide housing prices depends on how property owners react to the legislation and whether they make alternative actions to improve the value of their property. We are unable to estimate that impact with the available data.

Trends in the Demolition of Illegal Housing Units in San Francisco, 2004-14

Year	Illegal Units Removed
2004	22
2005	38
2006	12
2007	10
2008	19
2009	8
2010	6
2011	39
2012	2
2013	70
2014	24
Average	23

Source: Housing Element 2014, Planning Department

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