

Consumer Preferences

Gaining the entitlement “votes” of existing residents has become more important than creating products that will be top consumer vote-getters.

IN THE 1980S, STUDIES AIMED at identifying buyer profiles and defining the product features and price trade-offs of various buyer groups were the bread-and-butter work of firms specializing in market research for real estate developers. The goal of this research was to enable builders and land developers to succeed in the competitive marketplace. Research on residential projects, for example, focused on the key variables of location, unit size, room layout, and trade-offs between product features and amenities, and was linked to key buyer demographic categories, such as first-time homebuyers, trade-up buyers, senior buyers, and urban singles, among others.

The demand for such studies, however, has shrunk along with the number of local markets where success in the competitive battle for market share is a more important determinant of development profitability than success in the fight for entitlement. Local markets where the fight among competing projects still overshadows the importance of obtaining project approvals include overbuilt

condo markets such as those in Las Vegas and Florida. The surge of high-rise luxury condominium development recently entitled in some former industrial and com-

mercial central city areas (see “The Urban Boom(ers),” *Multifamily Trends* May/June, page 48) has also created demand for consumer-oriented market research.

But with the rise of NIMBYism in the 1980s, gaining the entitlement “votes” of existing residents has become more important than creating products that will be top consumer vote-getters. Being market responsive themselves, real estate research firms have switched their emphasis from product market studies to “entitlement” studies. Other types of firms, like public relations firms, also have jumped into the market for research aimed at identifying which project features and related strategies are likely to convince neighbors and their representatives to approve development projects in their backyards.

Firms with expertise and success in working with the neighborhood participation process have seen a boom in demand for their services. These firms focus on what is required to get support/votes for a project (or at least to discourage people from working against a project) and, in some cases, to make sure a project still meets feasibility after providing the amenities or product changes required by neighborhood participants. Frequently, the amenities are parks and open spaces that serve wider audiences than the prospective occupants of the new development. Often, the process also results in the size of a project being scaled down.

A recent San Francisco Planning & Urban Research Association (SPUR) article written by David Prowler, formerly a Volunteers in Service to America (VISTA) tenant organizer, currently a consultant to public agencies, nonprofit organizations, and developers, aptly summa-

rizes the citizen participation-driven San Francisco planning process:

“Here’s how it’s done in San Francisco. The planning department staff or the planning commission, or even the board of supervisors, decides to draw up a new plan for an area. Maybe it’s because there have been too many controversies there, or because it seems like a good idea to either change or preserve the character of that neighborhood—how the buildings and streets look and are used. There is some squabbling about the boundaries, and then the process of creating a plan begins. The public is invited to give input at community meetings, given handouts, shown slides, and given a chance to ask questions or make criticisms. Six months later, the planners come back with a modified version of the original idea, pass out handouts, show the slides, and ask for comments. This gets repeated for a decade.

Or perhaps somebody wants to develop a piece of property. Maybe he or she holds a community meeting and presents the idea (which is probably pretty far along). Some people like it and drop out of the process, while opponents rally for a showdown. In the meantime, the planning department staff cranks [out] a study of all the environmental damage the project could do. Years later, there’s a hearing, then appeals.

Average San Franciscans are cut out of the process, nobody seems to have a clear idea of what urban planning can and cannot do, and sometimes it seems that the process itself is the product. It’s not a great system. We can do better.”

Cynically, the planning and decision-making system can be described as a process whereby those who are not going to have



In San Francisco, local citizens are actively involved with issues relating to things like preserving the character of neighborhoods and how buildings and streets look and are used.

to pay for a proposed project raise the cost for those who will pay, and those who will not pay decide what users will get for their money. While many claim San Francisco is known for its unusually difficult planning and development environment, it is certainly not alone in presenting stumbling blocks for the planning and development community. Most California communities fall within the spectrum of difficult to impossible with respect to granting development approvals.

“Neighbors” have enlightened self-interest reasons to be so consistently difficult. First, by reducing the amount of residential development by stalling the process, the value of their homes continues to increase, even in downturns. Second, those developments that finally do get the go-ahead are likely to be increasingly expensive, as the cost of development, including materials and labor, rises. This, in turn, makes new housing more expensive, which means only wealthier households can afford it. If the neighbors can also force the developer to provide amenities, such as new parks or bike trails, this too increases the value of the existing homes and neighborhood.

As a result, not only are entire segments of the public priced out of the housing market (unless they are lucky enough to obtain an inclusionary housing unit, which is equivalent to winning the lottery), but even those fortunate households who can afford a new home cannot count on having their primary housing preferences met.

One example is the remediation and land development of the 62-acre (25-ha) closed Pacific States Steel mill site in Union City, on behalf of the U.S. District Court, Northern District of California. The site was under court supervision from the date of the plant’s closure to preserve the only asset that could be used to fund the health benefits of former steelworkers, as well as to compensate other credi-

tors, including the city and redevelopment agency of Union City.

Consumers, voting with what they were willing to pay for alternative housing products and densities, revealed that the value of the land would be maximized if the remediated site was developed with detached single-family houses at a density of eight to 12 units per acre (19.7 to 29.6 units per ha). The compromise dictated by a planning commission responding to neighbors wanting large-lot detached housing, and affordable housing activists wanting attached, relatively high-density units, called for 216 attached townhouses and 119 detached units at six units per acre (14.8 units per ha). The project, now in its final phase of construction, is delivering a total of 335 housing units.

If the market-dictated product, assuming an average of ten dwelling units per acre (the midpoint between eight and 12 units), had been allowed, a total of 380 single-family detached units would have been supplied. This would have added an additional 45 units to the Union City’s housing supply. Furthermore, all of those units would have gone to those consumers willing to pay the most for the land value their market preferences capitalized into the site. Consumer satisfaction would have been maximized along with additions to the housing supply.

Given the increasing segmentation of America’s population, common sense would suggest that there is likely to be a wide disparity in housing product preferences. For example, for the first time more women (51 percent) are living without a husband than with one; only about one-fifth of U.S. households include two parents with one or more children living in the home; there is an increasing percentage of unmarried partner households, both heterosexual and homosexual; and America is more ethnically diverse than ever.

For decades, planning policy decision-makers in the fast-growth areas where housing costs have been escalating have been responding to the dictates of those who Robert Bruegmann refers to as “the incumbents” in his recent book *Sprawl: A Compact History*.

For the most part, as long as local commissions and boards tailor their land use approvals and regulations to the preferences of the neighbors who crowd the hearings on new projects, spending money on consumer preference studies will not be good business for developers.

In the 1992 study published by the Washington, D.C.–based Urban Land Institute, “Development Regulation and Housing Affordability,” Ira S. Lowry and Bruce W. Ferguson already noted the primacy of neighbors in the political process that shapes land use policies. In their summary, they concluded, “Municipal policies usually are designed to protect the interests of existing residents, not prospective ones.” The acronym NIMBY is familiar because of the key role that neighbors play at public hearings in many communities. As long as the criteria for planning regulations are dominated by the desire to serve the needs of those who already own homes in a community, the type and amount of housing built will continue to escalate in price and limit the choices of prospective buyers.

The effect on housing costs that local planning regulations produce in a political environment that caters to the wishes of those who

already live near new development has been documented in many studies. A study conducted by John M. Quigley and Steven Raphael of the University of California at Berkeley, attributing the skyrocketing increase of housing costs to restrictive regulations, was published in the May 2005 papers of the Nashville, Tennessee–based American Economic Association. The widely discussed “Superstar Cities” study by Joseph Gyourko and Todd Sinai of the Wharton School at the University of Pennsylvania and Christopher Mayer at Columbia University confirmed that the metropolitan statistical areas with price-escalating supply restrictions include markets on both coasts, such as New York, Boston, and San Francisco.

In central cities where high-rise condominium development has been allowed, partially because such development is often in areas that formerly were home to commercial and industrial land uses with relatively few neighbors, new projects are beginning to see a slowdown in sales. This is causing some interest in studies aimed at discerning consumers’ housing preferences. But in major metropolitan areas with strong economies and continued inflows of migrants seeking housing, not even the current de-escalation in demand is motivating homebuilders to do more than learn from the experiences of recently built “comparable housing.” For the most part, as long as local commissions and boards tailor their land use approvals and regulations to the preferences of the neighbors who crowd the hearings on new projects, spending money on consumer preference studies will not be good business for developers. **U**

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