

Episode Summary

On this episode of "Driving It Home" Dr. Clare Losey and Deputy Director of Communications Danielle Hammett discuss the recent economic research on the impact of minimum lot size on housing affordability and the total cost of home ownership. The discussion revolves around a proposed change in Austin's minimum lot size from 5,750 square feet to 2,500 square feet. Dr. Losey explains that reducing the minimum lot size could lead to more affordable housing because it allows more homes to be built on subdivided lots, potentially reducing the cost of home ownership by decreasing the size of the land required.

Dr. Losey points out that holding other factors constant, reducing the minimum lot size can lead to lower home prices and increased housing supply. Specifically, if the lot size is reduced to 2,500 square feet, it could cause a 10% to 25% decline in the price of a new home. The research suggests that subdividing larger lots could generate up to 436 additional homes annually in Austin, significantly impacting the city's housing supply. While this might not be immediately apparent, the long-term effects are crucial, as it can take years for the changes to materialize due to permitting processes and construction timelines.

The episode concludes with a discussion about how this research might affect real estate businesses and potential home buyers. The hosts emphasize the importance of addressing affordability, especially in a rapidly growing city like Austin. They encourage listeners to share the research with their clients, suggesting that these changes could have significant implications for housing affordability and accessibility in the city.

Episode Transcript

[00:00:04] **Danielle Hammett:** Hey y'all! Welcome to this week's Driving It Home podcast. We have a great episode for you today with lots of info that you are sure to be able to take back to your clients today. We are going to be talking about Dr. Losey's [latest economic research report on the impact of minimum lot size on housing affordability](#) and the total cost of home ownership.

So, minimum lot size, if you need a definition to take back to your clients, refers to the zoning requirements on how big a lot can actually be parceled out to be. This has been a topic of interest within the City of Austin and our Land Development Code for quite some time now. You saw through the Home Initiative Phase One that the city of Austin now allows up to three homes to be built on a single lot. Now, the Austin City Council is going to be addressing how big those lots can actually be and re-look at the minimum lot size.

[00:01:03] **Danielle Hammett:** The argument here is that the smaller the lot, the more homes you can build and the more access to homes. In theory, a smaller lot size would decrease the cost of a home and, through property appraisals, decrease the long-term costs of home ownership. Dr. Losey wanted to put some actual numbers behind that. Hence, this report is to prove if this is the case. I'm gonna hand it off to Dr. Losey to start unpacking this report. Clare, do you have anything else you'd like to add to that definition before you jump in?

[00:01:34] **Dr. Clare Losey:** The only thing I would add is just that when we talk about minimum lot size, it's really important to remember that we are talking about regulation, and regulations run the gamut from minimum lot size to environmental regulations in the city of Austin. You can think about the Barton Creek Habitat Preserve being an example on the other end of the spectrum in the sense that we are designating land for a particular purpose, and as such, we are restricting its use in other regards.

[00:02:07] **Dr. Clare Losey:** So with respect to minimum lot size, we're saying you must use X amount. Right now, it's 5,750 square feet to build a home. And so that's putting, you know, kind of this price floor on land costs. So, in essence, just remember that regulations do drive up the cost of housing ultimately. There are, of course, very necessary reasons for regulation for the health, safety, and welfare of our residents. But again, just thinking about in terms of how regulations do drive up the cost of housing.

[00:02:46] **Danielle Hammett:** So, Dr. Losey, what you're saying is that this new minimum lot size requirement can offset those rising costs from regulations. Is that right?

[00:02:54] **Dr. Clare Losey:** That's correct. The question here really is to what extent, right? And that's what this report delves into more so.

[00:03:03] **Danielle Hammett:** Alright, well, let's dig in. What did you learn in your research, Dr. Losey?

[00:03:07] **Dr. Clare Losey:** So first and foremost, just to frame the potential effects of this proposed change to minimum lot size, right now, it's from 5,750 square feet to 2,500 square feet. To really elucidate the potential effects of this proposed change on affordability, we need to think about two key implications. The first of which is that holding everything else constant, i.e., assuming there are no other changes, the prices of homes that would be built on the subdivided lots should be lower relative to the price of a single home that otherwise would have been built on the original larger lot, i.e., that 5,750 square foot lot that we currently are regulated to follow. The second key implication is, again, all else equal, holding everything else the same, as the number of lots on which homes can hypothetically be built increases, the supply of homes should also increase. To boil it down, what we're really talking about here with this potential change is lower home prices with respect to new homes and also just more new homes across the board. Therefore, there will be more homes in Austin, in the city of Austin in general.

[00:04:35] **Danielle Hammett:** Dr. Losey, that's really good news. Did you guys look at any specific area of Austin where this would be the most impactful?

[00:04:42] **Dr. Clare Losey:** Great question. So, to put more numbers to the story, essentially, if we're thinking about, say, a decline in the original lot size, again, from 5,750 square feet to that 2,500 square foot number, it's a decline of about 57%. And really, what that's telling us is that even if the square footage of a new home built on that lot does not decline, the price of

that new home should decline by a little over 10%. So, again, holding the square footage of the physical home itself constant, that reduction in the minimum lot size requirement could induce a 10% decline in the price of a new home. Say that the new home is 25% smaller than it otherwise would be. Again, with that proposed reduction in the minimum lot size to 2,500 square feet, that would result in an estimated 25% decline in the price of a new home.

[00:05:56] **Dr. Clare Losey:** So really, when we're talking about minimum versus maximum effects, for example, if we're looking at an original price of a new home of about \$700,000, you know, a new home that would be sited on the original lot size, i. e. that 5,750 square foot lot, we're thinking about a home price, new home price of \$700,000. With this proposed change, the minimum effect would reduce that new home price by about \$6,000, but the maximum effect could result in about a \$92,000 decline in the price of that new home. So, instead of being \$700,000, we're looking at a new home price of about \$608,000 to maybe \$694,000. So, of course, these have very significant implications for affordability within the city of Austin.

[00:06:53] **Danielle Hammett:** I'm just sitting here thinking about that difference. That is huge. That would be huge for some, especially within the city of Austin, how that would make housing not only more plentiful but more accessible. I mean, I'm excited; I'm just thinking about it right now. Um, I know that this decision isn't going to be made by Austin City Council for the next...it takes a couple of months for something to work through the council, so I do believe this is going to go through the summer. But, um, yeah, this is why it's something that ABoR is supporting. This research report is great for showing potential buyers that there could be some hope on the horizon. In addition to what we talked about last week, we have this new introduction. More accessible housing and that first-time homebuyer tier that under \$300,000 tier, this is really exciting. So, Dr. Losey, let's close it out. What are your top takeaways from the report?

[00:07:48] **Dr. Clare Losey:** Overall, I think, too, just the potential effect of additional homes that could be built annually due to this proposed change, for example, if even 50% of lots end up being subdivided, there could be an estimated 436 additional homes built annually in the City of Austin, which may not sound like a lot on, on its surface, but when we're thinking about, you know, essentially, maybe anywhere from probably a thousand to three thousand building permits being issued annually, you know, 436 is a significant proportion of that. So, this really could bear considerable implications for the supply of housing as well. And, of course, it is important to highlight that this is a long-term effect. It takes a long time, not only for these proposed changes to be enacted but also for them to really begin to shape and materialize on the ground. Of course, new home construction takes at least a couple of years to go through the permitting process. So we're really not going to see the effects of this for quite some time, for at least probably five years, but of course, just bearing the sentiment that it is so imperative to do something now to try to help facilitate affordability in the future. We know that Austin is only going to continue to grow, and we need to support efforts to put more housing on the ground to be an inclusive region to a variety of folks and to support a diverse workforce.

[00:09:23] **Danielle Hammett:** That is certainly right, and I love how you put that just now. Dr. Losey, do you have anything else you want to share with us this week?

[00:09:30] **Dr. Clare Losey:** No, I would just encourage folks. So if you want to check out the report and email us if they have any questions, we're really looking forward to hearing everyone's feedback and hope that it's useful for you and your business.

[00:09:42] **Danielle Hammett:** All right. Well, this has been an awesome episode, guys. Please listen in, take some notes, and share this info with your clients. We hope you guys have a great week out in the field. Bye, guys.

[00:09:52] **Dr. Clare Losey:** Thanks, everyone. Take care.