

UC SANTA BARBARA

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Value Proposition

Developers and landowners often spurn governmental regulations, arguing that they raise costs and generate frustration when managing properties.

But a new study out of UC Santa Barbara's Bren School of Environmental Science & Management suggests that — despite conventional wisdom — one unique law governing the California coast may in fact increase property values. The [findings](#) appear in the Journal of Urban Economics.

The California Coastal Act regulates land use and coastal access throughout the state, ensuring that California's coast remains ecologically and aesthetically superb. Although it applies to only 1 percent of land in California, this encompasses some of the most valuable real estate in the world. Development in the official coastal zone is subject to approval by the California Coastal Commission, and generally requires that owners post public notice of proposed changes to the community for comment. This can result in delays and significant modifications of potential projects.

[Andrew Plantinga](#), a Bren School professor of natural resource economics and policy, decided to investigate how the Coastal Act has impacted property values in the coastal zone by comparing them to nearby properties just outside the designated areas. Using price and rental income data for apartments and condominiums in Southern California, Plantinga's team found that the regulation increased the value of properties within the coastal zone by 18 to 25 percent.

The literature had previously been unclear on how land use regulations affected property values, Plantinga explained. Some showed a negative effect, while others showed a positive effect.

“There is no way to know in advance,” said Plantinga, “but I’m not terribly surprised to find that the effects are positive.”

It all comes down to whether the benefits of the regulation outweigh the costs it imposes on property owners. And currently, they seem to. “We’re looking at very urbanized areas where there are huge pressures to develop land,” said Plantinga. “So protecting resources right along the coast is extremely valuable.” Why? It creates stability for property owners, limits congestion and safeguards amenities like quiet streets, clean beaches and ocean views, he noted.

Because the coastal zone boundary doesn’t strictly follow the coastline, properties a similar distance from the ocean may lie on opposite sides of the dividing line. This allowed Plantinga and his coauthor, former UC Santa Barbara doctoral student Christopher Severen, to compare similar properties across the boundary from each other. It was a ready-made controlled experiment.

Unsurprisingly, when the two researchers analyzed data, they found that property values rose as they approached the shoreline. However, the smooth rise in value had a distinct jump right at the boundary of the coastal zone.

Under the Coastal Act, property owners must inform their neighbors of alterations they plan to make to their property and provide them an opportunity to protest those changes. So, while the law does add certain costs for a given property owner, this same regulation also protects them from incurring costs based on actions of their neighbors, Plantinga explained. For instance, property owners could protest an addition on a house that would block their view of the sea — a circumstance that would otherwise drive down the value of their own property. This affords property owners a large measure of stability. Plantinga and Severen found that about 30 percent of the law’s influence on prices came from these localized effects.

Roughly 70 percent of the Coastal Act’s influence on property values came from the regulation’s more far-reaching impacts along the California coast. For example, said Plantinga, restrictions on development inside the coastal zone reduce traffic along the coast. Some of these benefits spill over the boundary into adjacent neighborhoods, but the effect diminishes the farther you get from the coastal zone,

he explained.

What's more, while property values tended to jump just inside the coastal zone, Plantinga and Severen discovered that rental rates did not. This is because a competitive rental market ensures that rental prices are comparable for similar units, regardless of whether they fall under regulation or not. Usually, property value corresponds with rental price — namely, if you can charge higher rent, your property is inherently more valuable.

According to Plantinga, the evidence indicates that the higher property values inside the coastal zone reflect land owners' expectations that they will be able to charge higher rent in the future. This means that the regulations set forth by the Coastal Act will likely increase the attractiveness of their properties compared with similar plots that fall outside of the law's jurisdiction.

Although the study considered transactions only in Southern California, Plantinga expects similar factors apply throughout the state. While the Coastal Act limits what individuals can do with their own properties, or makes these activities more expensive, it also restricts the activities of other property owners within the coastal zone, he explained. This enhances the value of the coastal resource in a way that makes everybody's property more valuable.

When it comes to regulations, "costs tend to be real to land owners. Benefits are harder for them to see," said Plantinga. "Our study quantifies these for them."

About UC Santa Barbara

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