Housing Supply, Property Insurance, and Exposure to Wildfire Risk

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Abstract

In the past two decades, about half of the new homes in the United States were built in areas at risk of natural hazards. Why is new residential development being exposed to such risk? I argue that land-use regulations restricting development in safer areas, along with frictions in property insurance markets, contribute to this pattern. I study this question in the context of exposure to wildfire risk in the metropolitan area of San Diego, California, where safer areas are highly regulated and built-out, and insurance regulations prevent premiums from accurately pricing the risk of property damage. I estimate a quantitative urban model using detailed spatial data on zoning, density limits, lot size restrictions, wildfire risk, and insurance. In the model, the regulations reallocate the population to unregulated at-risk areas. Through simulations, I demonstrate how these effects depend on the estimated disamenities from wildfire risk, insurance access, and the spatial correlations between regulations, wildfire risk, and location amenities. These results show how granular urban policies determine the cost and incidence of climate change.

JEL Codes: O18, Q54, Q56, R23, R31, R52.

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I Introduction

In the past two decades, about half of new U.S. homes were built in areas exposed to natural hazards (Ospital, 2025). Why has residential development been moving into harm's way even as climate risks intensify?

This paper argues that two institutions interact to push development toward risk: (i) land-use regulations that restrict new housing in safer, high-amenity neighborhoods, and (ii) property-insurance pricing frictions that weaken the link between premiums and expected damages. When supply is constrained in safe locations and risk is not fully priced, equilibrium sorting reallocates households toward less regulated but more hazardous areas.

I quantify this mechanism in the San Diego metropolitan area, where wildfire risk rises toward the urban periphery while central neighborhoods are closer to regulatory build-out. Using highly granular data on zoning and density limits, wildfire risk, and insurance, I estimate a quantitative spatial equilibrium model of residential sorting and housing supply and use it to evaluate policy counterfactuals.

San Diego is an ideal stage to study the interaction of urban policies and wildfire risk. The left-hand panel of Figure 1 shows the distribution of wildfire risk in the study area, with darker shading representing higher risk. Wildfire risk grows eastward as we move from downtown San Diego and the coastline to the urban periphery. About 12% of the San Diego population live in areas with at least 1% probability of a wildfire within the next 30 years, and 7% live in areas with a probability of at least 20% of a wildfire within the same period.[1] The right-hand panel of Figure 1 shows the distribution of housing built in San Diego as a fraction of the maximum allowed by current land-use regulations, with darker shading indicating a location close to capacity. A location becomes built-out by a combination of high demand and restrictive regulations. While areas in the periphery have plenty of spare capacity, central areas are closer to being built-out. Taken together, the two maps in Figure 1 show a positive correlation between build-out areas and safety from wildfire risk. This correlation motivates my hypothesis that land-use regulations are an important driver of population exposure to wildfire risk.

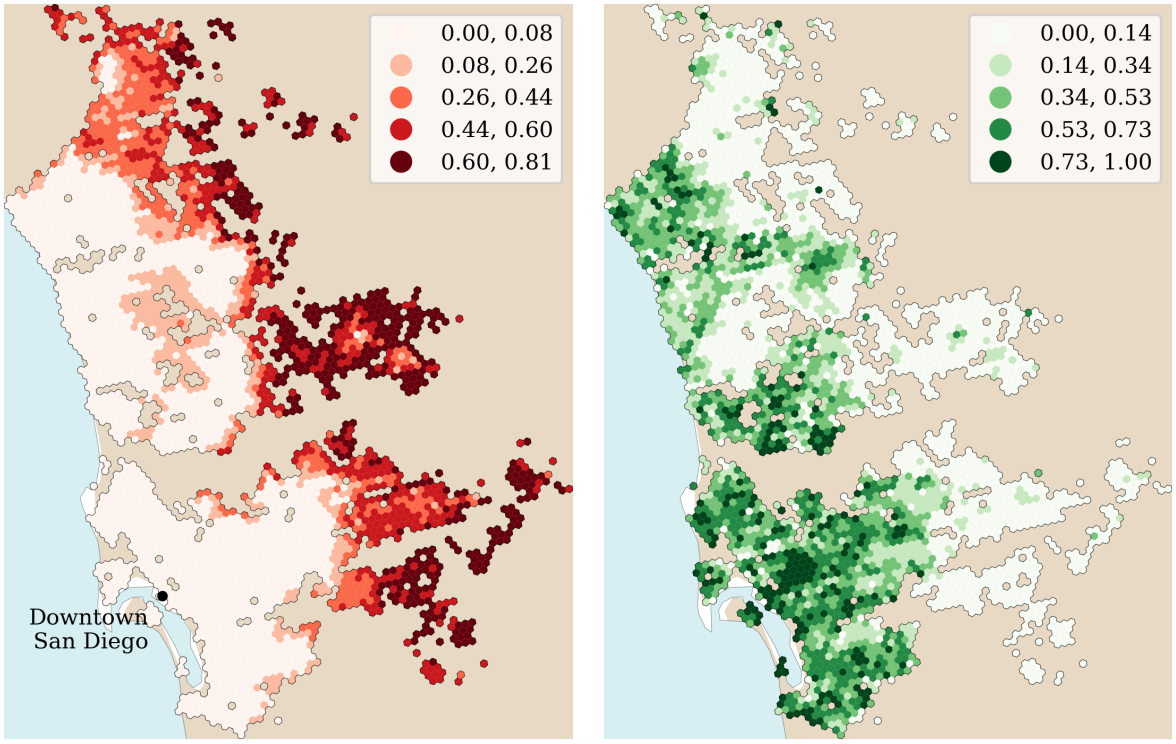
I model workers who first choose whether to live in San Diego or in the rest of the country and then where to work and live within San Diego. As in standard urban frameworks, workers care about residential amenities, commuting costs, and wage opportunities. In addition, the workers here care about an expected amenity cost that captures the negative health and safety effects of being close to a wildfire burning. I quantify this location choice with tract-level data on commuting flows, parcel-level data on homes, and probabilistic measures of wildfire risk.[2] I find that wildfire

[1] Fires that spread from wildland make the urban periphery of San Diego one of the areas with the highest natural hazard risk in the United States. Wildfires increasingly threaten the health, safety, and comfort of people exposed to them. Of the top 20 deadliest wildfires in California's history, 11 happened since 2003. Besides the wildfires' direct threat to safety, they have been linked to harmful smoke exposure, deterioration of mental health, and reductions in the value of outdoor recreation. Moreover, wildfire damages to property have dramatically increased in recent years in the United States. Between 2015 and 2018 wildfires caused the same losses, $53 billion, as in the prior 26 years combined. Please refer to Section II.A.2 for citations and data sources.

[2] My estimation strategy leverages the structure of the location choice model. The model yields a composite

Figure 1: Wildfire risk and land-use regulations in the San Diego metropolitan area

(a) Wildfire likelihood over 30 years (b) Fraction built-out of maximum allowed



Note: Choropleth maps of wildfire risk and spare building capacity within regular hexagons of side length 560 meters. Only populated hexagons are shown. The ranges of the bins in each map were chosen following Jenks' classification method. In panel (a) the areas with a wildfire likelihood of 0.08 or higher (i.e., the four darkest bins) hold 8% of the population. The areas with a wildfire likelihood of 0.26 or higher (i.e., the three darkest bins) hold 4.6% of the population.

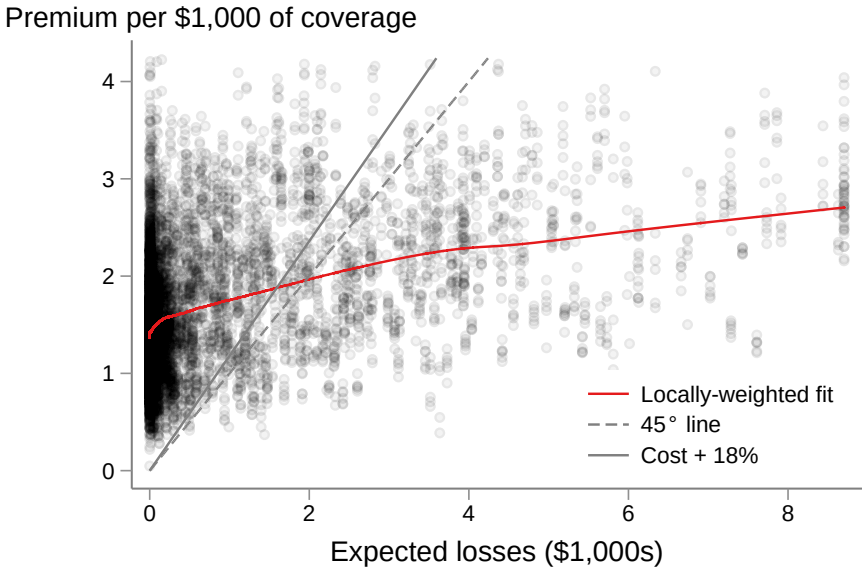
risk reduces the amenity value of a location, and also of locations within a 1-km radius. My estimates imply a willingness to pay equivalent to 4.8% of annual income to avoid a 20% likelihood of wildfire burning within 30 years.

Second, I combine the previous housing demand system with a housing supply model to determine a general equilibrium with endogenous distributions of population, housing, wages, rents, and insurance premiums. I model immobile landowners that choose housing supply subject to expected property damages due to fire risk and mitigate this financial cost through buying insurance. Crucially, I model the land-use regulations observed in the data, which cap the number or sizes of homes that may be built in a location. These building constraints, when binding, allow landowners to charge higher markups. My modeling of insurance premiums is consistent with the institutional

amenity that rationalizes housing choices and housing costs. I first invert the amenity composite from the quantified model, and then estimate the effect of the probabilities of burning on this amenity composite using variation in the number of homes over short distances that are located on land with a similar topography and are at a similar distance from wildland.

reality of California, where regulations limit insurers' use of probabilistic risk models, the FAIR Plan mandates the provision of coverage to high-risk homes, and reinsurance expenses are not considered in the process of premiums approval, leading to cross-subsidization. Figure 2 illustrates that point: California ZIP codes with high wildfire risk pay premiums lower than expected losses, and low risk ones pay more.

Figure 2: Insurance Premiums and Wildfire Risk Across California ZIP Codes



Notes: Each dot represents a California ZIP code. Premium rates per dollar of coverage are calculated using CDI data, described in detail in Section B.1. Expected losses are the average probability of a major wildfire, as measured by the USFS. I calculate this as the product of the probability of a wildfire burning a pixel and the probability that the fire is intense, as measured by the conditional probability that flame length exceeds 4 feet (FLEP4). The USFS considers 4 feet to be the limit of manual fire control, so FLEP4 measures the likelihood that fire intensity will be beyond the ability of hand crews to control. Section V.A describes the wildfire data in more detail.

To accurately quantify the impact of wildfire risk on housing supply, I estimate key parameters of the housing supply model with ZIP-code level data on insurance premiums and coverages for the state of California. My estimates imply large damages to property, and significant under-pricing of wildfire risk. I estimate a wildfire risk premium that is 10.5% below fair insurance, and 24.1% below a more realistic benchmark of fair pricing plus a 18% risk load.

The model clarifies the theoretical channels through which housing supply differences within a city and distortions in insurance premiums drive exposure to natural hazard risk. Equilibrium exposure to natural hazards depends on the extent of their amenity costs and property costs, but is scaled by a term that is increasing in the housing supply elasticity. Therefore, exposure grows when safer locations are less elastic. Moreover, insurance reduces exposure if premiums are increasing in risk, but this effect is mitigated when premiums do not follow expected damages.

I estimate the model using highly granular data on wildfire risk and property damages, parcel-level tax assessment data and information on land-use regulations. I use a fine spatial grid of regular

hexagons with 215-meter sides, motivated by the fact that wildfire risk varies over short distances and that my estimates imply very localized amenity costs. Tax assessment data provides granular information on housing, but assessed values may be very different from market prices because of idiosyncrasies in the assessment process. In California, properties are mostly only re-assessed when sold, and if not their appreciation is capped at 2% per year.[3] I overcome this challenge by estimating fair-market assessments using 18 years of transactions data, mimicking an assessor that combines the most recent transaction price with the transaction prices of similar properties since. Specifically, I first use transactions to estimate the time-varying hedonic value of property characteristics. Then, I use these estimates to impute prices in years with no sales by adjusting the level of the most recent transaction price.

I use the calibrated model to evaluate two policy experiments. First, I up-zone parcels within a half mile of major transit stops by increasing their housing capacity by 10 percent. This policy, which is similar in spirit to recent California reforms, reduces rents across the metropolitan area—especially in safer central neighborhoods—and induces a reallocation of residents away from fire-prone fringe locations toward areas that do not burn. Workers experience welfare gains, concentrated in the safest areas, while landowners see mixed effects: owners of land in relatively safe, newly up-zoned neighborhoods gain, but land values fall in most other locations. Second, I replace the current cross-subsidized insurance schedule with cost-based premiums. This reform lowers development costs in relatively safe locations and raises them in the riskiest ones, steepening the gradient of housing costs with respect to wildfire risk and shifting population away from high-risk areas. However, it also raises rents in most locations, so workers are worse off on average, while landowners gain where premiums fall and lose where they rise. Together, these counterfactuals highlight a central trade-off: policies that improve the spatial allocation of development relative to wildfire risk can come with important distributional and affordability consequences.

The main contribution of this paper is to improve our understanding of how institutions mediate exposure to natural hazard risk in space. My paper is related to a recent literature that uses quantitative spatial models to evaluate the costs of climate risk. Jia et al. (2022), Balboni (2021), and Desmet et al. (2021) study the aggregate effects of floods. Costinot et al. (2016), Cruz (2021), Cruz and Rossi-Hansberg (2021), and Nath (2021) focus on the effects of rising temperatures. In these studies, reallocating goods and factors of production in space is key for adapting to climate change. My paper explicitly considers both the institutional constraints to the location of economic activity (such as land-use restrictions) and the potential for endogenous risk mitigation (such as insurance markets). Therefore, my results complement those in Nath (2021), where trade barriers limit adaptation to climate change through the reallocation of production. In Jia et al. (2022) location decisions depend on expectations about environmental risk, as they do in my model; however, their model does not include either housing supply or insurance in land development. Finally, compared to all these papers, I contribute a framework that accounts for the direct effects of envi-

[3] More precisely, the Assessor's Office updates this field in their system when there is a sale of the property; when there is an improvement to the property; when a calamity occurs that reduces the value of the property; or when the annual Proposition 13 valuation changes are applied. These changes match the CPI or 2%, whichever is lower.

ronmental risk on housing supply within a detailed urban setup, thus highlighting the importance of highly granular urban policies.[4]

This paper also demonstrates a novel cost of land-use restrictions. An extensive literature in urban economics shows that land-use regulations can lead to higher housing costs, misallocation of production, and long commutes (Gyourko and Molloy, 2015). I show that regulations that constrain construction in environmentally safe places may displace new residential development to riskier areas. Underlying this mechanism is a more general idea that the welfare costs of land-use restrictions depend on their covariance with fundamental amenities in space. However, environmental risks such as wildfires are different from other amenities because they also affect the supply of housing directly and depend on mitigation choices, such as insurance.

In particular, my paper is related to recent studies that use quantitative urban models to assess the general equilibrium consequences of land-use regulations within a city. Acosta (2021) focuses on the relative incidence of zoning and density restrictions on low- and high-skilled workers in Chicago, Illinois. Martynov (2021) studies the welfare effects of land-use regulations in New York City while accounting for heterogeneous spillovers across industries. Anagol et al. (2021) evaluate an actual zoning reform in São Paulo, Brazil, while accounting for the value of densification and a newer housing stock. Favilukis et al. (2022) use a dynamic two-region model to study the insurance value of housing affordability policies against the misallocation generated in labor and housing markets. My paper departs from these studies by modeling granular spatial heterogeneity in landowners' profits, which allows quantifying how environmental risk and land-use restrictions have different effects on more or less regulated areas, or areas with lower or higher environmental risk. Moreover, I focus on the aggregate effects within the city and study how the incidence of these regulations is affected by population growth.

My paper is also related to a literature investigating the environmental impact of urban form. Glaeser and Kahn (2010) and Zheng et al. (2011) show that households who live in denser cities have lower carbon footprints in the US and China, and Blaudin de Thé et al. (2021) assess the effect of density and other features of city geometry on car usage and emissions in France. Glaeser and Kahn (2010) document a negative correlation between emissions and the level of land use controls across U.S. metropolitan areas. Colas and Morehouse (2022) use a spatial equilibrium model to quantify the effect of city-level land-use restrictions on national emissions. The focus of my paper is on local exposure to risk *from* the environment, rather than harm *to* the environment. Carozzi and Roth (2023) argue that the lower emissions associated with denser cities come at the cost of higher local pollution exposure. While my setting does not feature a direct externality such as carbon emissions, it does have an indirect pecuniary externality arising from insurance cross-subsidization. Another difference is the focus on within-city effects. My model captures the micro-geography of

[4]More generally, my paper is part of a growing literature on adaptation to climate change. Kahn (2016) and Massetti and Mendelsohn (2018) review the climate adaptation literature. Barreca et al. (2016), Heutel et al. (2021), and Carleton et al. (2021) show that climate adaptation reduces the mortality effects of temperature. Barwick et al. (2021) study how transportation infrastructure allows adaptation to pollution and extreme temperatures. Albert et al. (2021) study the reallocation of workers and capital as a response to droughts in Brazil.

land-use regulations and wildfire risk in the San Diego metropolitan area at the resolution that these vary, and I measure regulations directly instead of using survey-based measures.

Finally, this paper expands a recent literature on the economic impacts of wildfires. Some of these papers focus on the mitigation of wildfire risk: Baylis and Boomhower (2019) estimate the implicit subsidy of federal suppression to development in harm's way, Plantinga et al. (2020) study the effectiveness of suppression and how value at risk determines suppression effort, Wibbenmeyer et al. (2019) study the determinants of the provision of fuel management, Baylis and Boomhower (2021) measure the effects of building codes on structure survival, and Burke et al. (2021) and Heft-Neal et al. (2023) study behavioral responses to wildfire smoke. Other papers analyze the effects of wildfire risk on home prices (Garnache, 2020; McCoy and Walsh, 2018; Mueller et al., 2009), on mortgages (Issler et al., 2020), and on migration (McConnell et al., 2021; Sharygin, 2021; Winkler and Rouleau, 2021). My paper complements this literature by modeling how wildfire risk interacts with the housing and labor markets of a city, which allows running counterfactual simulations and quantifying the aggregate cost of wildfire risk.

II Setting: The San Diego Metropolitan Area

In this section I describe two key features of the San Diego metropolitan area: wildfires threaten homes in the periphery, and land-use regulations restrict building homes in central areas that are unexposed to wildfire risk. I then present another important feature, but of the entire State of California: property insurance premiums only weakly increase with wildfire risk.

II.A Wildfires Threaten the Urban Periphery

This study focuses on the San Diego metropolitan area because it has both high exposure to natural hazard risk and a large dispersion in the degree of risk exposure. The main natural hazard threatening San Diego, as well as most of California, is wildfires. To the east, the metropolitan area borders state and federal parks, areas of rugged terrain and wildland with a landscape dominated by fire-prone native shrubland (Figure A.1 in the appendix shows a detailed map). It is from this wildland that fires can spread to homes in the urban periphery of San Diego.

Wildfire risk is influenced by human activity, but in this setting, it is unlikely to be a significant factor. Empirically, there is a generally negative effect of human population on fire (Andela et al., 2017; Knorr et al., 2016a,b, 2014). In principle, the link is non-monotonic: development increases wildfire risk at low densities and reduces risk at high densities. Risk may increase at low densities because of accidental ignitions from power line failures, increased traffic, or increased recreational use. At high densities, risk may decrease because of mitigation (faster detection, higher firefighting effort) or vegetation changes (fragmentation of wild vegetation, e.g., roads contain spread preventing fires from becoming large). This paper focuses on a highly urbanized metropolitan area, where changes in development density are not expected to increase accidental ignitions. Additionally, the rugged terrain surrounding the metropolitan area, as mapped in Figure A.2 in the appendix,

features steep slopes unsuitable for residential construction. Areas with slopes above 15% are deemed severely constrained for residential construction (Saiz, 2010). Therefore, there is little potential for sprawling land-use changes that could fragment the natural vegetation and decrease wildfire risk.

II.A.1 Exposure to wildfire risk

San Diego County is among the places in the United States with the highest natural hazard risk, both on average and in the dispersion of risk within the county. According to FEMA's NRI index, 95.5% of U.S. counties and 91.3% of counties in California have a lower overall risk. This position in the overall ranking is driven mostly by wildfire risk. San Diego County ranks third in the country in wildfire risk, behind Riverside and Los Angeles County. Moreover, the variance of wildfire risk across census tracts in San Diego-Chula Vista-Carlsbad is a close second among all core-based statistical areas (CBSA) with more than one million people, being surpassed only by the Riverside-San Bernardino-Ontario CBSA. Considering all risks, its variance ranks third after Sacramento-Roseville-Folsom, California, and Houston-The Woodlands-Sugarland, Texas.

Whether wildfire risk is high or low in absolute terms will ultimately depend on landowners' and residents' risk preferences and on the magnitude of damages. Through my model and estimates I will show that these levels of risk effectively carry high costs in terms of property damage, safety, health, and comfort. But, as a first approach, I can consider how the probabilities of burning compare with the risk categories developed by the First Street Foundation, a nonprofit that develops measures of property-level climate risk. The organization uses a 1% cumulative burn probability over 30 years as a threshold separating places with no or minor wildfire risk from places with moderate or higher wildfire risk. In my study area, 358,000 people, or 12% of the population, live above that threshold. First Street considers as "extreme risk" its highest risk category, when the cumulative burn probability over a 30-year period exceeds 26%. In the San Diego metropolitan area, 139,000 people, or 4.6% of the total, live in such areas, based on data from several sources, which I describe in Section V.A.

II.A.2 The dangers of wildfires to property, health, and comfort

When a wildfire burns, exposed people and buildings can suffer severe damages. Exposed people face a multitude of negative health outcomes, and experience discomfort and feelings of unsafety. I will later introduce a model where wildfires cause property damages and reductions in residential amenity values. The latter, which I estimate, capture the effects on exposed people's health and comfort.

Wildfire damages to property have dramatically increased in recent years. In only four years, from 2015 to 2018, wildfires in the United States caused the same losses, $53 billion, as in the previous 26 years (1990–2014).[5] Of the top 20 most destructive wildfires in California history, 18

[5]This is in terms of both insured and uninsured losses, based on Munich Re estimates, transformed to 2015 U.S. dollars using the Consumer Price Index.

happened since 2003 and 15, since 2015.[6]

Wildfires carry increasing direct and indirect health risks. For people living near wildfires, direct health effects include death, burns, injuries, and mental health effects due to exposure to flames or radiant heat (Xu et al., 2020). For example, the 2009 Black Saturday wildfires in Victoria, Australia, killed 173 people directly (Cameron et al., 2009). In California, of the top 20 deadliest wildfires in the state's history, 11 have happened since 2003 and 7, since 2017. The 2018 Camp Fire, the deadliest wildfire in California history, resulted in 85 deaths (CAL FIRE).

Owing to traumatic experiences, property loss, and displacement, residents in areas affected by wildfires are at an increased risk for mental illness, including post-traumatic stress disorder, depression, and insomnia. For example, survivors of wildfires in Canada (Brown et al., 2019), Greece (Psarros et al., 2017), and Australia (Bryant et al., 2018) reported symptoms that include anxiety and trouble sleeping. Johnston et al. (2021) find a reduction in surveyed life satisfaction for individuals residing in close proximity to the 2009 Black Saturday bushfires valued at 80% of average annual income. The satisfaction domain most negatively affected is how safe the person feels.

An indirect risk that I cannot fully capture in this paper comes from exposure to wildfire smoke. Burke et al. (2020) estimate that wildfires contribute to up to 25% of fine particulate matter ($PM_{2.5}$) in the United States, and up to half in some of the western regions in the country. Burke et al. (2023) show that wildfire smoke has significantly slowed down the improvements in trends in particulate matter concentrations. Exposure to fine particulate matter can have adverse health effects in the short and long term (U.S. EPA, 2019; Deryugina et al., 2019; Anderson, 2019; Knittel et al., 2016; Zhou et al., 2021). My estimation strategy can only partially capture the effects of wildfire smoke, because I use variation over short distances to identify the impact of wildfire risk on the amenity value of a location. Therefore, any consequence that affects a large area at the same time cannot be identified.

Wildfires also reduce the value of outdoor recreation. Gellman et al. (2021) find a decline in campground use as a result of nearby fires and smoke exposure. Kim and Jakus (2019) find that burned area is associated with lower visits to Utah's National Parks, and estimate negative regional economic impacts especially in rural, tourism-dependent counties. Survey evidence shows that a majority of people exposed to wildfire smoke from California's Station Fire of 2009 stayed indoors more than usual and avoided normal outdoor recreation and exercise (Richardson et al., 2012).

II.A.3 Home insurance and risk mitigation

The extent to which the dangers described in the previous section affect the well-being of people (as well as affecting buildings) depends on the opportunities and costs of risk mitigation. In my model I include a key factor that can help mitigate the financial costs of natural hazards:

[6] This figure comes from the California Department of Forestry and Fire Protection (CAL FIRE). CAL FIRE defines "destruction" by the number of structures destroyed, where structures include homes, outbuildings (barns, garages, sheds, etc.), and commercial properties.

insurance. Wildfires differ from other hazards, such as floods, in that standard homeowner policies typically include coverage against wildfire damage. However, regulatory distortions may lead to cross-subsidization where low risk areas pay high premiums and high risk areas pay low premiums.

The homeowner insurance market in California has three important institutional features that may lead to cross-subsidization. The first is the mandated existence of an insurer of last resort, the California Fair Access to Insurance Requirements (FAIR) Plan Association, that is financed by all insurance companies operating in California. The FAIR Plan provides a basic policy with limited coverage (including wildfires) to homes that cannot obtain coverage in the standard market.

The second institutional feature is the regulated use of probabilistic models. Insurers in the admitted market are not allowed to use probabilistic models in setting premiums. They can use only their history of losses to support rate change requests. They are allowed, however, to use these tools to decide whether to write or renew a policy. The short available history may not be representative of events that happen only once in 250 years or once in 500 years, which could lead to both underpricing of the real risk and overpricing of regions where an event happens. [7]

The third feature is the disallowance of reinsurance costs in rate change requests. That is, the regulator prohibits insurers from incorporating reinsurance costs in rate schedules when requesting permission to update premiums. This incentivizes insurance companies to reduce the number of high-risk properties insured. However, that margin of adjustment is limited by the restrictions on accurately pricing risk and moratoria in policy cancellations in the wake of wildfire events.

Figure 2 shows evidence that California ZIP codes with high risk pay premiums lower than expected losses, and low risk ones pay more. The Figure shows a scatter plot of the average premium per dollar of fire coverage obtained from the California Department of Insurance (CDI) against the probability of destruction constructed using burn probabilities from the USFS. The solid curve, a locally-weighted regression fit, shows that the relationship is concave and that low-risk areas pay premiums above their expected losses (above the 45-degree line) while the riskiest areas pay premiums below expected losses (below the 45-degree line). While this data is coarse and does not account for potentially important sources of heterogeneity between ZIP codes, the premium schedule is consistent with the results in Boomhower et al. (2024) which rely on property-level cost estimates and premiums. Moreover, the concavity survives adding controls.[8] The dashed straight line shows an alternative benchmark where premiums equal expected losses plus a 18% risk load, the benchmark cost gradient I later use for counterfactual exercises.

There are other forms of risk mitigation, both private and carried out by governments, that do not appear explicitly in my analysis. Although I implicitly include them in my measurements and estimates of risk and damages, they remain fixed by assumption in the counterfactual experiments. Private mitigation methods include expenses paid by homeowners to protect their properties, such

[7] The regulator has criticized the risk models for their omission of some inputs (e.g., mitigation efforts), and raised the concern that the modeled risk scores produced are not granular enough for use on particular properties (Cignarale et al., 2017).

[8] Specifically, including controls for mortgage share, seasonal homes share, vacant share, and median built year in a regression of premiums per $1,000 of coverage on expected losses and expected losses squared results in a coefficient of 0.276 and -0.021.

as the elimination of flammable materials inside a "defensible space" around a home, or the use of ignition-resistant roofing (Baylis and Boomhower, 2021). Another example is air filtration technology. Survey evidence shows that a majority of people exposed to wildfire smoke from California's Station Fire of 2009 ran the air conditioner more than usual (Richardson et al., 2012).

A notable way to mitigate wildfire risk is through suppression. The federal government and the state of California are in charge of suppressing the majority of fires because they start in land that these institutions own, and these expenditures have been growing over time. I chose to treat government suppression as given because looking at data from incident reports I found that the per capita cost of firefighting in the parks around the study area is small. Moreover, a recent paper, Baylis and Boomhower (2019), estimates the per-home implicit subsidy of federal firefighting and finds that the expected protection costs are low in Southern California. The reason is that firefighting costs are non-monotonic in density: beyond low levels of housing density, the marginal effect of additional homes on firefighting expenditures is small.

II.B Land-use Regulations

Strict land-use regulations in areas with high demand, such as San Diego, are credited with deteriorating housing affordability. The maps in Figure 1 suggest that this pattern is also present within cities, and that central areas tend to have higher demand and be more restricted.

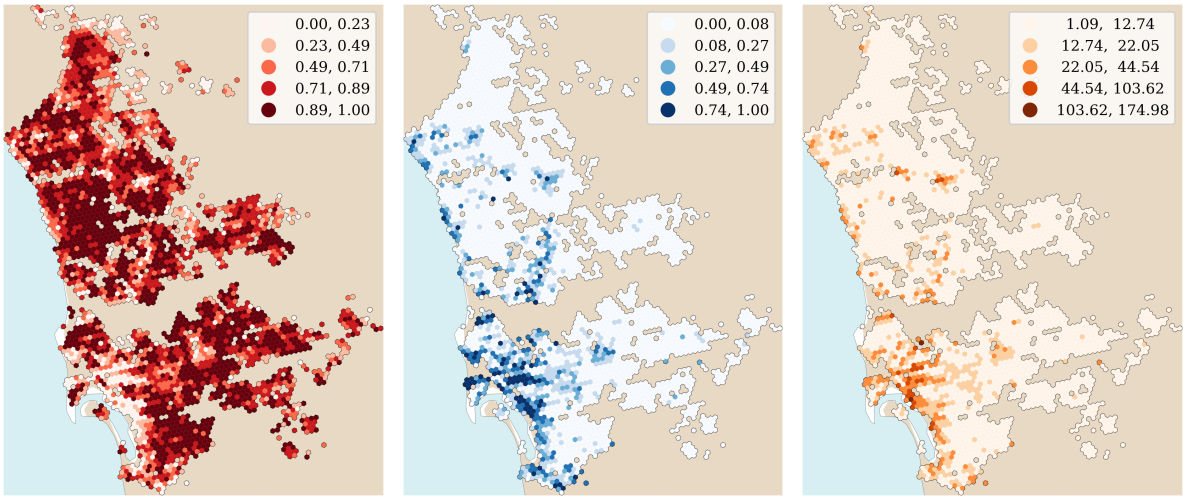
California house prices and rents are at historic highs and housing production is at historic lows. San Diego is not an exception: median house values increased from 2.7 to 6.9 times the median income between 1970 and 2017, and median rents increased from 16.3% to 24% of median income in the same period (LTDB, 2010). The region added an average of about 25,000 homes annually in the 1970s and 1980s but fewer than 7,000 homes per year since 2006 (SANDAG, 2019).

Restrictive land-use regulations are widely credited with originating the housing supply shortage (Molnar, 2022). Panels (a) and (b) of Figure 3 show the distribution of single- and multi-family zoning over a 560-meter-sided hexagonal grid, with a darker color indicating a larger fraction of a hexagon is zoned that way. In the San Diego metropolitan area, more than 80% of the residential land is reserved exclusively for low-density detached single-family homes. The multi-family zones are mostly concentrated close to Downtown San Diego and along the coastline.

Panel (b) plots the maximum number of homes (i.e., dwelling units) allowed per acre of land. The vast majority of the residential land is mandated to be under 12 dwelling units per acre, and these are typically single-family detached homes. Densities between 12 and 30 dwelling units per acre are typically achieved by duplexes or rowhouses. The areas that allow the most density are close to Downtown San Diego and along the coast. However, high-density areas are very limited, and even the densest are relatively sparse. Densities between 100 and 150 dwelling units per acre, similar to the higher bin in the map, are typically achieved with 5–7-story apartment buildings with underground parking.

Figure 3: Zoning and maximum homes allowed

(a) Fraction zoned single family (b) Fraction zoned multi-family (c) Maximum homes per acre



Notes: Choropleth maps of zoning and maximum density allowed within regular hexagons of side length 560 meters. Only populated hexagons are shown. Data from municipal codes and zoning maps of cities in San Diego County and the San Diego Association of Governments. Refer to Section B for details on data collection.

III Model

This section presents the key features of the model, and further details can be found in the Appendix.

I first develop a model of location choice within the city. I will later leverage the model's structure to estimate the reduction in residential amenity values associated with wildfire risk. These amenity costs capture all the negative outcomes related to health, safety, and comfort that arise from being close to a burning wildfire, as described in II.A.2.

Second, I combine the previous housing demand system with a housing supply model to determine a spatial equilibrium. The supply side captures the effect of property damages, as well as the role of property insurance markets in mitigating those losses. Moreover, building constraints affect the curvature of housing supply through an increase in markups.[9]

III.A Location Choice with Wildfire Risk

Workers choose where to live and work. In making these decisions they weigh the expected amenity costs of wildfire risk and the value of other residential amenities against housing costs, and weigh wages against commuting costs.

The model partitions the San Diego metropolitan area in two levels of geographies. The upper level is census tracts. Each tract is then partitioned into residential locations, which are a grid of 215-meter-sided regular hexagons. I use capital letters I and J to indicate the tracts, and lowercase

[9]One could write a different model where building constraints affect the curvature through marginal costs, but the effect on landowner welfare would be different.

letters i and r to indicate the hexagons. The notation $I(i)$ indicates the tract where hexagon i is located. I use this fine resolution because wildfire risk varies over very short distances. The two levels differ in spatial resolution, which allows me to keep the model computationally tractable while still modeling commuting choices—a key determinant of location values and realistic substitution patterns.

There is a continuum of workers indexed by ι who first draw idiosyncratic values $z^{city}(\iota)$ and $z^{out}(\iota)$ for living in the modeled city (the San Diego Metropolitan Area) or in the rest of the country, and choose one of the two options. Second, they draw idiosyncratic values for residential hexagons $b_i(\iota)$ and choose one to live in. Third, they draw idiosyncratic labor productivities $e_J(\iota)$ for each workplace tract in the city, and choose one as their commuting destination. I assume that the idiosyncratic values $z^{city}(\iota)$, $z^{out}(\iota)$, $b_i(\iota)$ and $e_J(\iota)$ are i.i.d. type II extreme value with shape parameters $\varepsilon^C > 1$, $\varepsilon > 1$ and $\theta > 1$ and means equal to 1.

To live in hexagon i, workers need to rent a home there and they choose one among those offered by landowners indexed by $\ell \in (0,1)$. They have heterogeneous preferences over homes captured by $\epsilon(\ell, \iota)$, which they draw from a i.i.d Gumbel distribution. Workers pay for rent with the income from a unit of labor supplied inelastically in their workplace tract, and spend the remaining income on a consumption good that is freely traded nationally. Wildfires happen after workers make all these choices except the consumption of the tradable good.

The value of home ℓ to worker ι is given by $\ln \omega_i(\ell) + (1-\zeta) \ln q_i(\ell) + \epsilon(\ell, \iota)$, where $\omega_i(\ell)$ is a preference shifter common across workers, $\zeta > 1$ is a parameter, and $q_i(\ell)$ is the rent price of home ℓ. Given the distributional assumption on the idiosyncratic values $\epsilon(\ell, \iota)$, the demand for housing space takes the form

$$h_i(\ell) = \omega_i(\ell) H_i \left(\frac{q_i(\ell)}{Q_i} \right)^{-\zeta}, \tag{1}$$

where $Q_i \equiv \left(\int_0^1 \omega_i(\ell) \left(q_i(\ell) \right)^{1-\zeta} d\ell \right)^{1/(1-\zeta)}$ is the price index. The corresponding demand for housing space in hexagon i is then $H_i = \left(\int_0^1 \left(\omega_i(\ell) \right)^{1/\zeta} \left(h_i(\ell) \right)^{1-1/\zeta} d\ell \right)^{\zeta/(1-\zeta)}$.

I assume Cobb-Douglas utility between the consumption good and housing, with expenditure shares β and $1-\beta$. If Q_i denotes rents and B_i the residential appeal (i.e., amenity value), the distributional assumptions on the idiosyncratic values imply that the probability that a worker chooses to live in i is

$$\lambda_i \quad = \quad \frac{\left(B_i \mathbb{W}_i Q_i^{\beta-1} \right)^{\varepsilon}}{\sum_{i'} \left(B_{i'} \mathbb{W}_{i'} Q_{i'}^{\beta-1} \right)^{\varepsilon}}. \tag{2}$$

The variable $\mathbb{W}_i$ is maximized expected income, and thus incorporates the value of the optimally chosen workplace and depends on commuting costs and the value of the shape parameter θ.

Workers first choose whether to live in the city and the rest of the country. The rest of the country is the outside option and offers mean utility $\mathcal{U}$. From the residential choice, the expected utility of living in the city is $\mathcal{V} = \left[\sum_i \left(B_i \mathbb{W}_i Q_i^{\beta-1} \right)^{\varepsilon} \right]^{1/\varepsilon}$. Under these assumptions, the probability

of choosing to live in the city is

$$\lambda^C = \frac{\mathcal{V}^{\varepsilon^C}}{\mathcal{U}^{\varepsilon^C} + \mathcal{V}^{\varepsilon^C}}. \tag{3}$$

The total number of workers in the country is exogenous and given by N^*. Therefore, the city population is $N = \lambda^C N^*$ and the population in a hexagon is $N_i = \lambda_i N$. Worker's housing expenditures in hexagon i are then

$$Q_i H_i = (1 - \beta)\, \mathbb{W}_i N_i. \tag{4}$$

I parametrize the amenity damages of wildfire risk exposure, and later estimate these parameters. I assume there is a constant marginal willingness to pay for a reduction in wildfire risk, expressed as a fraction of income, equal to φ^B. That assumption implies $B_i \propto \exp\left(-\varphi^B \delta_i\right)$, where δ_i is the wildfire probability. I also let amenities vary endogenously depending on the average income in the tract, $\mathbb{W}_I/N_I$. This allows, in a reduced form, for the possibility of variety effects in retail amenities, congestion effects or direct preferences for density, or locally-funded public goods. Specifically, I assume that amenities are

$$B_i = b_i e^{-\varphi^B \delta_i} \left(\frac{\mathbb{W}_{I(i)}}{N_{I(i)}}\right)^{\eta}, \tag{5}$$

where b_i is an exogenous fundamental amenity level and the parameter η is the elasticity of amenity value with respect to average income.

III.B Housing Supply with Wildfire Risk and Insurance

In this section I develop a model of how immobile and risk-averse landowners choose housing supply. In making their choice they consider wildfire risk and buy insurance coverage to mitigate the financial cost of property damages.

In each hexagon i there is a continuum of landowners, indexed by $\ell \in (0, 1)$, that own the stock of land zoned for housing, L_i. Each owns a single unit (a lot) of land, chooses how much housing space $h_i(\ell)$ to build on it under conditions of monopolistic competition, and then rents it to workers at price $q_i(\ell)$. After building housing, landowners can purchase insurance coverage for wildfire and other damages. After the realization of property damages, landowners use their remaining rental profits for consumption of the tradable good. I assume they have preferences with constant absolute risk aversion (i.e., invariance of risk aversion across the wealth distribution), characterized by utility function $U(C) = 1 - \exp(-\sigma C)$, where $\sigma > 0$ is the coefficient of absolute risk aversion.

Insurable property damage is either wildfire-related or non-wildfire-related. With probability δ_i, a wildfire occurs and the landowner incurs wildfire damages $\varphi_i^H h_i(\ell)$, which scale with the housing stock $h_i(\ell)$. Non-wildfire damages equal φ^o per unit of housing and occur independently with probability δ^o. These represent perils such as plumbing failures, theft, hail, and small structure fires that can affect any house in the city, including locations far from the wildland interface. Landowners purchase insurance coverage x_i and x_i^o at prices p_i and p^o to offset wildfire and non-wildfire losses, respectively.

Landowners within a location i are uniform with the exception of the demand shifter $\omega_i(\ell)$, which implies that housing space in different lots is only imperfectly substitutable from the perspective of renters. I assume that these demand shocks are drawn independently and identically (i.i.d.) from distribution G with unit mean and finite variance. All landowners in i can supply housing space at a constant development cost d_i, but they are constrained to a maximum allowed per-lot capacity of $\bar{h}_i$.

Starting from the second step, the insurance decision solves the problem of maximizing expected utility subject to the budget constraint while taking the housing space decision as given. The first-order conditions with respect to x_i and x_i^o yield the demands for insurance coverage:

$$x_i = \varphi_i^H h + \frac{1}{\sigma} \ln\left(\frac{\delta_i}{1-\delta_i}\frac{1-p_i}{p_i}\right), \tag{6}$$

$$x_i^o = \varphi^o h + \frac{1}{\sigma} \ln\left(\frac{\delta^o}{1-\delta^o}\frac{1-p^o}{p^o}\right). \tag{7}$$

Equations 6 and 7 can be interpreted as explaining deviations from full insurance as a function of imperfections in insurance markets. These imperfections will drive a wedge between premiums (p) and expected damages (δ). If these imperfections cause premiums to exceed expected damages, $p > \delta$, then the second term is negative and it leads to partial insurance. The degree of risk aversion, captured by the coefficient of absolute risk aversion σ, is inversely related to the importance of these distortions. In the extreme, if $\sigma \to \infty$, the landowner always insures fully.

In the first step, landowners decide how much space to build on their land and how much rent to charge. I formalize this choice as landowners maximizing their certainty-equivalent profits subject to the building capacity constraint $h \leq \bar{h}_i$. The constant absolute risk aversion (CARA) assumption means that the profits in the four states of the world are equal in every term that is a function of h and q, so we can focus on the profit maximization problem. The landowner's profit maximization problem is

$$\max_{q_i(\ell), h_i(\ell)} \left[q_i(\ell) - d_i - p_i\varphi_i^H - p^o\varphi^o\right] h_i(\ell) \qquad \text{subject to} \qquad h_i(\ell) \leq \bar{h}_i \tag{8}$$

and subject to the demand function as given by Equation (1).

The problem in (8) captures that wildfire damages enter as an additional marginal cost in the housing supply decision. Notice, however, that the degree of risk aversion does not affect housing supply or rents; property damages affect housing supply through the insurance premiums p^o and p_i and the marginal damages φ^H and φ^o. This fact is a consequence of the CARA assumption.

Within a location i, landowners only differ in the demand shifter for their home $\omega_i(\ell)$. Therefore we can define a threshold demand at which landowners become constrained $\bar{\omega}_i$. For landowners with less desirable lots $\omega_i(\ell) < \bar{\omega}_i$ the building constraint does not bind, and for landowners with more desirable lots $\omega_i(\ell) \geq \bar{\omega}_i$ the building constraint binds. Solving for $\bar{\omega}_i$ from the first order conditions of the profit maximization problem (8), and replacing the optimal rents into the price index Q_i yields an inverse supply curve:

$$Q_i = \mathcal{M}(\bar{\omega}_i)\, D_i,$$

where $D_i \equiv d_i + p_i\varphi_i^H + p^o\varphi^o$ is the effective per-unit development cost including insurance and $\mathcal{M}(\bar{\omega}_i)$ is the markup. The markup is only a function of the threshold $\bar{\omega}_i$ and is determined by parameter ζ and the distribution G. It is greater than one ($\mathcal{M} \geq \zeta/(\zeta-1) > 1$) and strictly increasing ($\mathcal{M}' > 0$). As we approach a situation where no landowners are constrained, $\bar{\omega} \to \infty$, the markup approaches the unrestricted monopolistic competition markup $\zeta/(\zeta-1)$.

Replacing the solution for the threshold $\bar{\omega}_i$ and the optimal rents (8) into the aggregate housing space demand H_i yields $H_i = \bar{h}_i\,\mathcal{H}(\bar{\omega}_i)\,L_i$. The function $\mathcal{H}$ is strictly decreasing and known given ζ and G. The total housing capacity in i is $\bar{H}_i \equiv \lim_{\bar{\omega}_i \to 0} H_i(\bar{\omega}_i) \propto \bar{h}_i L_i$, which implies that the buildup rate $H_i/\bar{H}_i$ is just a function of $\bar{\omega}_i$. Moreover, the buildup rate inherits the properties of function $\mathcal{H}$, so it is also strictly decreasing in the threshold $\bar{\omega}_i$. Crucially, that means there is a one-to-one mapping between the cutoff $\bar{\omega}_i$ and the buildup rate $H_i/\bar{H}_i$, which allows us to re-write the inverse supply curve as

$$Q_i = \mathcal{M}(H_i/\bar{H}_i)\,D_i. \tag{9}$$

With very low buildup, $H_i/\bar{H}_i \to 0$, the markup approaches the unrestricted monopolistic competition markup $\zeta/(\zeta-1)$. When we approach full building capacity, $H_i/\bar{H}_i \to 1$, the markup becomes arbitrarily large.

III.C Insurance Supply

There is a regulated insurer that sells coverage to landowners in the city before property damages are realized, and finances payouts using premium revenue.

Regulation constrains the insurer's wildfire premium rate in each hexagon i to follow a schedule $p_i = p(\delta_i;\tau)$ parametrized by τ. We impose $p(0;\tau) = 0$, so $p(\delta_i;\tau)$ captures the incremental premium allowed for wildfire risk in a hexagon with probability δ_i. The shape of this schedule captures regulatory frictions to insurance pricing, such as limits in insurers' use of probabilistic risk models, the FAIR Plan mandated provision of coverage to high-risk homes, and exclusion of reinsurance expenses in the rate-setting process.

In addition, the insurer is subject to a "revenue requirement" that caps total revenues at a constant proportion R of expected costs. The revenue requirement implies the citywide self-funding condition

$$\sum_i \left(p_i x_i + p^o x_i^o\right) L_i = R \sum_i \left(\delta_i x_i + \delta^o x_i^o\right) L_i.$$

The left-hand side is total premium revenue. The right-hand side is expected payouts for a risk-neutral insurer, scaled by R, where $R-1$ can be interpreted as an allowed return, surplus requirement, or risk load.[10]

Since the wildfire premium schedule $p_i = p(\delta_i;\tau)$ is given by regulation, the self-funding con-

[10] If instead of modeling the self-funding condition we take the parameters in the premium schedule (p^o, τ) as exogenous, we are implicitly allowing for under or over funding of the modeled city's insurance, depending of whether expected payments are over or under total premiums collected. Such an assumption can be justified by insurance companies (or a state or federal government) cross-subsidizing across regions and states.

dition determines the premium rate for non-wildfire damages endogenously as a function of the spatial distribution of insurance coverage:

$$p^0 = R\delta^o - \frac{\sum_i (p_i - R\delta_i)\, x_i L_i}{\sum_i x_i^o L_i}. \tag{10}$$

The decomposition in Equation 10 clarifies incidence across perils. When wildfire premiums are "low" relative to expected wildfire costs (adjusted by the revenue requirement), the gap must be closed by a higher pooled premium p^o, raising premiums even in relatively wildfire-safe areas. In particular, if the wildfire pool is exactly self-funded, $p_i = R\delta_i$, the second term equals zero and the non-wildfire premium is actuarially fair up to the risk load $p^0 = R\delta^0$. If instead the wildfire pool is under-funded, the numerator of the second term is negative and we obtain that the non-wildfire pool cross-subsidizes wildfire risk: $p^0 > R\delta^0$.

III.D Spatial Equilibrium

I now define a spatial equilibrium of the model. I first do this in levels, and then describe my approach to implementing the equilibrium conditions in changes. The version in changes is then the one I used for estimation and simulations. For the sake of expositional clarity I treat wages W_I and expected income $\mathbb{W}_i$ as exogenous, but the version of the model I use, presented in detail in the Appendix, has downward-sloping labor demands across tracts.

Equilibrium. An equilibrium of the model is defined as the set of endogenous variables $\{\lambda_i\}, \lambda^C, \{Q_i\}$ (residential shares, city size, and rents) that given the fundamentals $\{b_i\}$, $\{\mathbb{W}_i\}$, $\mathcal{U}$, $\{d_i\}$, $\left\{\bar{H}_i\right\}$, and N^* satisfy that: the choices of residential hexagons are optimal (2) and a function of amenities as given by Equation 5; city choice is optimal (3); rents equalize demand (4) and supply (9) of housing; and the insurance premium schedule (p^o, p_i) is given by $p_i = p(\delta_i; \tau)$ and the self-funding condition (10).

Equilibrium in changes. I characterize the equilibrium of the model in changes. For any variable a in an initial equilibrium and a' in a new equilibrium, define $\Delta \ln a \equiv \ln a' - \ln a$. Expressing the equilibrium in changes is straightforward for most conditions, so I relegate those to the Appendix. The main exceptions are changes in housing supply, housing development costs, and insurance premiums. I discuss these in turn below.

The inverse housing supply equation (9) is non-linear in housing through the changes in markups. To improve tractability, I follow the approach in Boehm and Pandalai-Nayar (2022) and replace the changes in markups with a first order approximation around the buildup rate in the initial equilibrium. This yields the following empirical supply curve:

$$\Delta \ln Q_i = \mu_i \left(\Delta \ln H_i - \Delta \ln \bar{H}_i \right) + \Delta \ln D_i, \tag{11}$$

where $\mu_i \equiv \mu(H_i/\bar{H}_i) > 0$ is the markup elasticity.

Equation 11 provides a micro-foundation for heterogeneous housing supply elasticities (μ_i^{-1}) across locations in the city, arising endogenously from differences in housing already built (H_i) relative to building capacity ($\bar{H}_i$). The supply curve is convex when the markup elasticity is

increasing in buildup: $\mu' > 0$. That means that an increase in housing demand ($\Delta \ln H_i$) will lead to larger price increases in locations built closer to capacity, and that an increase in capacity ($\Delta \ln \bar{H}_i$) due to, for example, an up-zoning policy will decrease prices more in locations where the baseline buildup rate is higher.

The intuition for the convexity of the aggregated supply curve is straightforward. The shape of the curve follows from the assumptions that there are building constraints, so the maximum housing that can be built in each lot is fixed; and that lots are imperfectly substitutable. These imply that increasing the total housing stock in a location necessitates substitution towards less desirable lots, which are not built to capacity. This raises the location's price index. For landowners that are constrained, imperfect substitution allows them to charge markups, which increase with demand if the building constraint binds.

To compute changes in housing development costs D_i, I consider a first order approximation in changes in wildfire and non-wildfire premiums. I also assume that the wildfire premium schedule is linear in burn probabilities: $p_i = \tau \delta_i$. Under these assumptions, development costs change according to

$$\Delta \ln D_i = \frac{\varphi^H \tau \delta_i}{D_i} \left(\Delta \ln \tau + \Delta \ln \delta_i \right) + \frac{\varphi^o p^o}{D_i} \Delta \ln p^o, \tag{12}$$

where $D_i = d_i + \varphi^H \tau \delta_i + \varphi^o p^o$. This expression maps changes in wildfire premiums, $\Delta \ln p_i = \Delta \ln \tau + \Delta \ln \delta_i$, and non-wildfire premiums $\Delta \ln p^o$ to changes in development costs. The premium changes are weighed by their shares in total unit costs: $\varphi^H p_i / D_i$ and $\varphi^o p^o / D_i$.

In the expression above, the change in non-wildfire premiums is endogenous. I compute $\Delta \ln p^o$ using a first order approximation of the self-funding condition (10). Specifically,

$$\Delta \ln p_o \quad = \quad \varpi^o \sum_i \varpi_i \left(\frac{R - \tau}{\tau} \left(\Delta \ln \delta_i + \Delta \ln H_i \right) - \Delta \ln \tau \right), \tag{13}$$

where ϖ^o and ϖ_i are functions of the baseline distribution of total premiums. In particular, $\varpi_i \equiv p_i x_i L_i / (\sum_{i'} p_{i'} x_{i'} L_{i'})$ is the share of total wildfire-related premiums accounted for by location i, and $\varpi^o \equiv (\sum_i p_i x_i L_i) / (\sum_i p^o x_i^o L_i)$ measures the importance of total wildfire-related premiums relative to total premiums for other risks. In deriving this expression, I also approximate changes in coverage by changes in housing space, $\Delta \ln x_i \approx \Delta \ln H_i$.

IV Theoretical Implications: Determinants of Exposure

In this section, I use the model to illustrate how differences in housing supply, amenity costs of wildfire risk, property damages, and insurance market distortions all interact in shaping exposure to natural hazard risk within the city. For expositional clarity, in this section I abstract away from city choice and assume that there is no migration in or out of the city. I also assume no congestion or external economies of density ($\eta = 0$). I present the key equations here, and leave further details to the Appendix.

IV.A Heterogeneous growth

If we consider marginal changes in the size of the city N and the distribution of population across locations N_i that satisfy the equilibrium conditions we obtain:

$$\frac{d\ln N_i}{d\ln N} = \frac{1}{1+\varepsilon\left(1-\beta\right)\frac{\mu_i}{1+\mu_i}}.$$

This expression shows the equilibrium distribution of local populations that results from increasing the total population of the city. Crucially, growth is heterogeneous across locations because of differences in supply elasticities, μ_i, and this growth is decreasing in μ_i:

$$\frac{\partial}{\partial \mu_i}\left(\frac{d\ln N_i}{d\ln N}\right) < 0.$$

This result is intuitive: places with higher μ_i (steeper supply) expand less when the overall city grows.

IV.B Determinants of risk exposure

If we now consider marginal changes in burn probabilities and the distribution of population across locations that satisfy the equilibrium conditions we obtain an expression for the determinants of risk exposure:

$$\underbrace{\frac{d\ln N_i}{d\delta_i}}_{\text{Exposure}} = \underbrace{\varepsilon\frac{1}{1+\varepsilon\left(1-\beta\right)\frac{\mu_i}{1+\mu_i}}}_{\text{HS magnification}}\left(\underbrace{\frac{d\ln B_i}{d\delta_i}}_{\text{Amenity channel}} - \underbrace{\frac{1-\beta}{1+\mu_i}\frac{d\ln D_i}{d\delta_i}}_{\text{Property channel}}\right).$$

This expression is showing that risk exposure within the city, defined as the marginal increase in population as we consider riskier locations ($d\ln N_i/d\delta_i$), is driven by two channels: changes in amenities and in property costs. Moreover, these two channels are scaled by a term I have labeled "HS magnification", which captures the direct effect of heterogeneity in housing supply. Since this term is decreasing in μ_i, exposure will be magnified when safer locations are less elastic.

To gain further insight, we can replace the amenity with the assumed functional form (equation 5) and the development productivity with the expression resulting from the micro-foundation of insurance demand ($D_i \equiv d_i + p_i\varphi^H$). Replacing, we obtain

$$\frac{d\ln N_i}{d\delta_i} = \varepsilon\frac{1}{1+\varepsilon\left(1-\beta\right)\frac{\mu_i}{1+\mu_i}}\left[\underbrace{-\varphi^B}_{\text{Amenity}} - (1-\beta)\underbrace{\frac{1}{1+\mu_i}}_{\text{HS magnification}}\underbrace{\frac{\varphi^H}{d_i+\varphi^H p_i}}_{\text{Damages}}\underbrace{\frac{dp_i}{d\delta_i}}_{\text{Insurance}}\right].$$

Recall that the parameter $\varphi^B > 0$ captures the amenity costs of risk exposure, while the parameter φ^H captures property damages and p_i are insurance premiums.

Naturally, exposure is lower when the amenity costs of exposure (φ^B) are higher, as people would want to avoid those locations. The property costs channel is determined by the magnitude of the property damages("Damages") and by the sign and magnitude of the insurance price gradient, $dp_i/d\delta_i$. Insurance reduces exposure if premiums are increasing in risk ($dp_i/d\delta_i > 0$), but if there is strong cross-subsidization and prices fall with risk ($dp_i/d\delta_i < 0$) then the property damages channel

increases risk exposure. Finally, differences in housing supply have an additional magnifying effect of the property costs channel if safer locations are less elastic, since the term $1/(1+\mu_i)$ is decreasing in μ_i.

V Quantification

V.A Data on Housing, Population, and Wildfire Risk in the San Diego Area

I quantify the model with detailed data on commuting flows, the distribution of homes in space, and probabilistic measures of wildfire risk. I adjust all nominal monetary variables described next to 2018 dollars using the California Consumer Price Index from the Department of Industrial Relations.

Geographic units. Throughout the analysis I use data at two geographic levels. The upper level is census tracts or tract pairs under the 2010 census geography. The lower level is a regular hexagonal grid implemented with Uber's H3 hierarchical geospatial indexing system. H3 supports 16 resolutions, where each finer resolution has cells with one-seventh of the area of the coarser resolution. I aggregate the parcel-level data described below to resolution-9 hexagons, which in my sample have an average side length of 215 meters (705 feet) and an area of 0.12 square kilometers (29 acres). The radius of the smallest circle that contains a regular hexagon of side 215 meters (circumcircle radius) is 215 meters as well. The radius of the largest circle contained within the hexagon (incircle radius) is 186 meters (611 feet).

Commuting flow data. The source for tract-to-tract commuting flow data is the LEHD Origin Destination Employment Statistics (LODES) data set. I use information on all types of jobs of workers whose workplace and residence are in California. I average the count of workers in each tract-tract pair across the three-year period 2017–2019 to reduce the influence of individual idiosyncrasies on estimation and counterfactuals (Dingel and Tintelnot, 2021).

Place-of-work data. Because LODES reports only a few income bins, I use the 2017 National Household Travel Survey (NHTS) to measure workplace income. With the geocoded detailed version of the data set I match respondents' household incomes to workplace locations and then aggregate them to tracts using the provided weights to make the numbers representative of the total number of workers. Income is reported in 11 bins, and I take the midpoint of each bin except for the top one. When income is missing in a tract, I input the average in the ZIP code. If there are no other tracts in the same ZIP code with non-missing data, I input the average of the five nearest neighbors.

Residential housing data. To construct measures of the number of workers and the average rent in each hexagon, I combine 2019 parcel-level data with data from the U.S. Census American Community Survey (ACS) at block-group level. The parcel data is from the San Diego Association of Governments (SANDAG), the main planning and transportation agency in the region. These data sets have the number of housing units, square footage, and assessed value for each parcel on each plot of land in the County of San Diego. Section B in the appendix provides details about the

parcel data. I overlay the plots on the hexagonal grid and count the number of housing units to compute the median assessed value per square feet in each hexagon. To make the housing counts consistent with the tract-level number of workers, I allocate the workers of each tract to hexagons according to the share of housing units. Finally, to obtain the yearly rents per square footage in each hexagon, I rescale the assessed value per square feet with the ratio of yearly rent to home values in the 2014–2018 ACS.

Wildfire risk. I measure wildfire risk using the Burn Probability (BP) data set from the United States Forest Service (Scott et al., 2020). I overlay the hexagonal grid with the original raster data sets at 270-meter spatial resolution and calculate the mean values within each cell. The burn probability represents the annual likelihood of burning in a given location, and I use it as a direct measure of the burn probability in the model, δ_i.

The United States Forest Service risk measures are the result of a model developed by Finney et al. (2011) that simulates the occurrence and spread of large wildfires under many hypothetical fire seasons. It is important to use probabilistic measures derived from a model and not the distribution of historical burns because these are rare events. Although it may seem that wildfires are not that rare, because burned area and property damages are on an increasing trend at the state level, at fine resolution the realization of a fire burning is still a low-probability event.

Topography and current weather. I measure current weather as the "normal" in the most recent three decades (1991–2020) with data from the PRISM Climate Group (PRISM, 2020), which I also use to calculate the mean elevation in each hexagon. I measure the distance of each hexagon's centroid to the closest wildland, as well as the fuel types in each hexagon, using the 2019 National Land Cover Database. Lastly, I calculate the mean terrain slope (in percentages) from the United States Geological Survey's Digital Elevation Model raster files.

V.B Estimation of the Amenity Cost of Wildfire Risk

The damages of wildfires to amenity values are difficult to measure directly because they include a multitude of negative effects on health and comfort. Thus, I estimate these effects using the model.

To quantify the welfare cost of wildfire risk and forecast how the residential amenity values of places at risk will evolve with climate change, I need to separate the effects of wildfire risk from other determinants of the amenity value of an area. This separation is important because wildfire-prone areas are bundled with positive amenities, such as natural beauty, that may dominate the negative risk effect.

I assume that the variable capturing other amenities that are not wildfire safety is $b_i = \exp(\xi_I + X_i^B \gamma^B + e_i)$, a function of observable variables X_i^B with parameters γ^B, a component that is fixed within a tract (or coarser-resolution hexagon) ξ_I, and an unobserved component e_i. Replacing in the amenity function in Equation 5 leads to the estimating equation

$$\ln B_i = -\sum_s \varphi_s^B \cdot \bar{\delta}_{is} + \xi_I + X_i^B \gamma^B + e_i. \tag{14}$$

The variable $\bar{\delta}_{is}$ is the mean burn probability at ring distance s from hexagon i. The parameter

φ_s^B measures how much does wildfire risk at distance s reduce the residential amenity value of a hexagon. I can directly use the optimal-hexagon-choice equation from the model to invert the values of the expected amenity composite B_i from the data, given knowledge of ε. The controls included in X_i^B are distance to wildland, topographical variables, weather variables, and their squares. Therefore, this specification exploits variation between small hexagons within a tract that are at similar distance from wildland.

The fixed effects and controls help address threats to identification of the coefficients φ_s^B. Controlling for topography and weather is important because these characteristics determine burn probabilities and have amenity value. Moreover, topography affects construction costs and therefore housing prices.

Another concern is reverse causation from density to wildfire risk through land-use, firefighting, or human-caused ignitions. The tract fixed effects help address this concern because these mechanisms arguably operate at a larger scale. Having more traffic or recreational use of wildland would increase the likelihood of ignitions; however, that likelihood would be a function of the overall level of development in the area and not of variation between hexagons within a tract.

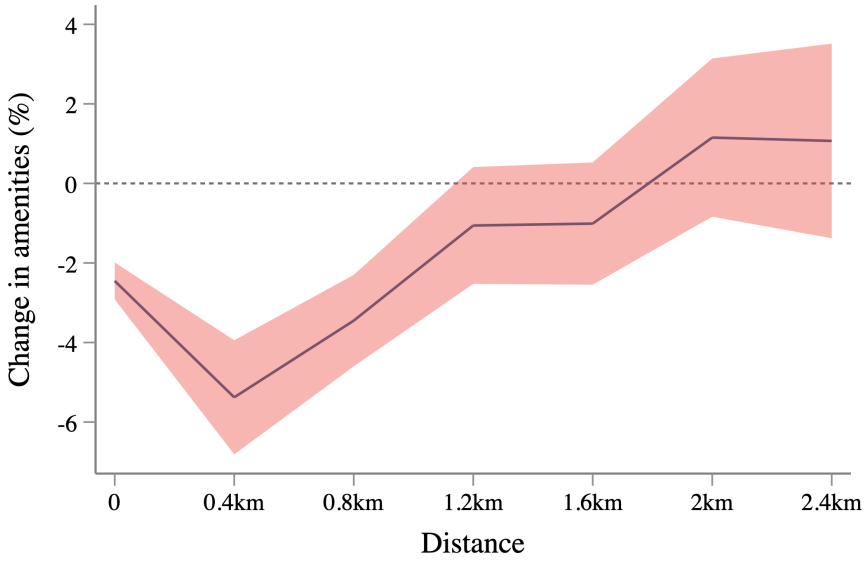
Additionally, recent wildfire realizations or incomplete information could also bias the estimates. A recent catastrophe could reduce population density only temporarily while homes are rebuilt, thus biasing the amenity damages. I address this concern by excluding from the estimation sample those locations that burned within the previous five years; this is the amount of time it has taken to rebuild destroyed buildings in the past in the United States (Alexandre et al., 2014). Incomplete information, if residents' perceptions of risk are different from objective risk, could also bias the results. This is less of a concern with wildfire risk because wildfires' recurrence in this area makes the risk salient. Moreover, myopia would bias the amenity costs towards zero, so my estimates would be conservative.

An important implicit assumption is that current prices reflect only the current risk, but do not anticipate the future changes in risk. Violations of this assumption could bias the estimated preferences and, as a consequence, put in question the use of the model on counterfactual risks from other environmental risks or projections of wildfire risk (Severen et al., 2018).

Willingness to pay for safety. The estimated amenity costs of wildfires are large but localized. Figure 4 plots the results of estimating Equation 14 by Poisson pseudo-likelihood. The effects are very local: wildfire risk in a residential hexagon and in the twice-removed neighbor reduces the amenity level, but the effect disappears at approximately 1-kilometer distance.

The units of the estimates of Equation 14 are hard to interpret, but allow constructing monetary measures of the willingness to pay for wildfire safety. The interpretation of this willingness-to-pay measure is the consumption equivalent, as a fraction of annual income, from avoiding risk altogether while keeping location choices and the prices in the economy fixed. This is, of course, an incomplete measure of the welfare effects of the wildfire disamenities because it ignores the general equilibrium effects that would arise from changing allocations and prices. I calculate more comprehensive equivalent variations to risk reductions in Section VI.

Figure 4: Marginal Impact of Greater Burn Probability on Amenities, by Distance



Notes: Marginal effect of a one standard deviation (0.013) increase in annual burn probability at different distances from a resolution-9 hexagon. The dark line runs through the point estimates and the red shaded area indicates 95% confidence intervals. Estimated using the Poisson pseudo-likelihood estimator. The fixed effects are the parent hexagons with an average edge of 1,221 meters (H3 resolution 7). The standard errors are clustered at the level of the fixed effects. I only include in the sample parent hexagons with children in the wildland-urban interface and with at least one populated child. The sample also excludes children hexagons burned in the previous five years

The implied willingness to pay is large, but it is also concentrated in the riskiest places. Evaluating it at a housing expenditure share of 30%, the willingness to pay to avoid moderate to major risk in the range 3%–14% likelihood of burning within 30 years is between 0.7% and 3.4% of income. The willingness to pay to avoid a 19% likelihood of burning within 30 years is 4.8% of income. Avoiding the likelihoods of burning within 30 years of 36%, 49%, and 66% is worth 10.6%, 16.5%, and 28% of income, respectively. To put these numbers in perspective, the average combined employee health insurance premium contribution and deductible in the United States in 2019 was 11.5% of median income, and 11.7% in California (Collins et al., 2022).

Robustness. The robustness of the findings is demonstrated in Table A.1, which can be found in the appendix. The table presents instrumental variable estimates that address the two main concerns regarding endogeneity. The first concern is reverse causation from human development to wildfire ignitions. To address this concern, I instrument burn probability with the non-anthropogenic wildfire risk measure from Parisien et al. (2012). This measure nets out the direct effects of human presence on the probability of wildfire. The results of this approach are shown in column 1. The second concern is that climate and topography have amenity value and affect risk. To address this concern, I use variation in expected risk driven by the salience of nearby burns. I construct an instrument that is the interaction of the topographic determinants of wildfire with the cumulative history of nearby burns. The results of this approach are shown in column

2. Despite these additional measures to address endogeneity, the estimates remain significant and larger than the baseline comparable estimate in column 0. This suggests that the baseline estimates may actually be conservative.

V.C Estimation of Premium Schedules and Property Damages

The model links wildfire risk to housing development costs and, in turn, to landowners' construction and pricing decisions. Wildfire risk raises development costs through expected property damages and through the cost of insuring those losses. Moreover, if regulation constrains premiums in the wildfire risk pool below expected losses, insurers recoup the shortfall by increasing premiums for other (non-wildfire) perils. In this section, I use ZIP-by-year panel data on insurance premiums and fire coverage in California to estimate the model parameters governing pricing frictions in wildfire premiums (τ), wildfire damages (φ^H), and non-wildfire insurance costs ($p^o\varphi^o$).

I first use variation in average premiums and fire coverage to estimate the wildfire risk premium schedule $p_i = p(\delta_i; \tau) = \tau\delta_i$. Using the model-implied expressions for coverage demand (6), average premiums $\bar{p}^*_{z,t}$ (including both wildfire and non-wildfire perils) for ZIP code z and year t are given by

$$\bar{p}^*_{z,t} = \tau\,\bar{\delta}_{z,t}\bar{x}_{z,t} + \beta_x\bar{x}_{z,t} + \bar{\tau}_z + \bar{\tau}_t + \tilde{\tau}_{z,t}, \tag{15}$$

where $\bar{\delta}_{z,t}$ is the housing-unit-weighted average burn probability within ZIP code z, $\bar{x}_{z,t}$ is average fire coverage, $\bar{\tau}_z$ and $\bar{\tau}_t$ are ZIP-code and year fixed effects, and $\tilde{\tau}_{z,t}$ is the regression residual. I include $\bar{x}_{z,t}$ separately to absorb changes in non-wildfire premiums that scale with coverage.

As shown in the Appendix, the residual in Equation 15 contains two terms that may bias estimation of τ: a term capturing time-varying non-wildfire premiums and insurance demand, and a term capturing the within-ZIP covariance between wildfire risk and coverage. To better account for non-wildfire premiums beyond ZIP-code and year fixed effects, I include controls that shape insurance demand independently of wildfire risk but may still be spuriously correlated with risk: the share of homes with a mortgage, the share vacant, the share used seasonally, and median year built. In Appendix Table A.2, I also address the covariance term by interacting the baseline within-ZIP covariance between units and burn probability with year dummies; the results remain robust.

Second, I use variation in total premiums and in the distribution of housing units across exposed and unexposed locations to estimate the composite parameters $\tau\varphi^H$ and $p^o\varphi^o$. Together with τ, these identify wildfire damages φ^H. The model implies that total premiums in ZIP code z and year t satisfy

$$p^*_{z,t} \;=\; (\tau\varphi^H)\sum_{i\in z}\delta_i H_{i,t} + (p^o\varphi^o)\,H_{z,t} + \bar{\varphi}_z + \bar{\varphi}_t + \tilde{\varphi}_{z,t}. \tag{16}$$

This equation implies increasing housing in locations with no wildfire risk within a ZIP code ($\delta_i = 0$) increases total premiums by $p^o\varphi^o$. If housing instead expands in risky locations, total premiums increase by an additional $\tau\varphi^H$ times the increase in ZIP-level exposure $\sum_{i\in z}\delta_i H_{i,t}$. When estimating this equation, I include the same insurance-demand controls as Equation 15.

To estimate Equations 15 and 16, I combine ZIP-code-level insurance data with unit-weighted exposure measures constructed from Census block data for 2010 and 2018. The CDI data provide average premiums ($\bar{p}^*_{z,t}$) and average fire coverage ($\bar{x}_{z,t}$) at the ZIP-code level every other year. To calculate housing-unit-weighted average burn probabilities $\bar{\delta}_{z,t}$, I begin at the Census-block level and then aggregate to ZIP codes using a Census concordance. I obtain 2010 housing counts from the WUI dataset and derive 2018 counts from the Microsoft Building Footprint dataset. I measure average wildfire risk for each block as the product of the probability that a wildfire burns a pixel and the probability that the fire is intense. Both probabilities come from the USFS, and I measure intensity as the conditional probability that flame length exceeds 4 feet (FLEP4). I construct total exposure ($\sum_{i \in z} \delta_i H_{i,t}$) similarly, by multiplying wildfire risk in each block by the number of housing units and then aggregating to ZIP codes. Due to data limitations, I use units instead of housing space to construct $\sum_{i \in z} \delta_i H_{i,t}$ and $H_{z,t}$.[11]

My estimates imply that wildfire risk is significantly underpriced in California. Table 1 reports the results of estimating Equation 15 (Column 1) and Equation 16 (Column 2). I estimate $\tau = 0.895$, implying premium rates 10.5% below actuarially fair pricing ($p_i = \delta_i$). Using the more realistic benchmark of fair pricing plus an 18% risk load ($p_i = R\delta_i$ with $R = 1.18$), premium rates underprice expected damages by 24.1%. The estimates in Column 2 show a composite parameter $\tau\varphi^H = \$64,498.8$, which, combined with the estimate of τ, implies wildfire damages of $\varphi^H = \$72,040.9$.[12] The coefficient on total units implies that the cost of non-wildfire risks is $p^o\varphi^o = \$293.6$.

Through the lens of the model, these parameters matter quantitatively through the equilibrium changes in housing development costs and insurance premiums (Equations 12 and 13, respectively). For the former, I back out the baseline wildfire ($\varphi^H \tau \delta_i / D_i$) and other-risk ($\varphi^o p^o / D_i$) development cost shares by proxying the unobserved baseline unit development cost d_i with an annualized reconstruction cost to construct the denominator D_i. The implicit assumption is that the estimated reconstruction cost is similar in magnitude to the upfront cost of developing a home. My estimates imply that wildfire insurance costs account for 8.2% of housing development costs on average across inhabited hexagons. The 90th, 95th, and maximum are 27.3%, 30.8%, and 43.5%. Other non-wildfire perils account for 6.4% on average.

To implement the equilibrium funding condition in Equation 13, I also need to measure the premium shares ϖ^o and ϖ_i, which are a function of the estimated premium schedule and property damages. Approximating total premiums by their damage component (and ignoring the distortion term), the wildfire premium share can be approximated with the housing wildfire exposure share: $\varpi_i \approx \delta_i H_i / (\sum_{i'} \delta_{i'} H_{i'})$. These are only a function of data. The share of total wildfire to non-wildfire

[11] Accordingly, I interpret the estimated damage parameters as per-unit equivalents of the model's per-space objects; this normalization is mostly innocuous for counterfactuals that depend on ratios and cost shares, and matters only if average housing space per unit varies systematically with wildfire risk within ZIP codes.

[12] The implied wildfire damages are lower than the reconstruction costs in Boomhower et al. (2024), which average about $\$594,671$. Their sample is selected from homes in ZIP codes with high average risk, which could explain the larger magnitude. Under this interpretation, my estimates are a lower bound on expected property damages.

Table 1: Estimates of wildfire risk premiums and property damages

	Average Premium	Total Premium
	(1)	(2)
Avg. Burn prob. × Avg. Coverage	0.895***	
	(0.145)	
Avg. Coverage	0.00139***	
	(0.000397)	
Total Exposure		64,498.8***
		(23,285.4)
Total Units		293.6***
		(49.00)
Insurance controls	Yes	Yes
Year FE	Yes	Yes
ZIP-code FE	Yes	Yes
N	2,610	2,578

Notes: OLS regressions at ZIP-code level. Standard errors in parentheses clustered by ZIP code. Asterisks indicate 10% (*), 5% (**), and 1% (***) significance. Appendix Tables A.2 and A.3 present the full set of estimated coefficients.

premiums becomes

$$\varpi^o \approx \frac{\tau\varphi^H}{p^o\varphi^o}\sum_i \frac{H_i}{H}\delta_i.$$

Using the estimates of $\tau\varphi^H$ and $p^o\varphi^o$ from Table 1, and the average housing exposure $\sum_i H_i\delta_i/H$ in the San Diego Metro, I obtain $\varpi^o = 0.227$. Noting that in 13 the value of ϖ^o is the cross elasticity between wildfire and non-wildfire premiums, this magnitude implies that (all else equal) raising wildfire premiums by 10% would reduce the premiums of other perils by 2.27%.

V.D Estimation of Future Wildfire Risk

To explore the effects of future increases in wildfire risk driven by climate change, I need estimates of future risk. Therefore, I estimate the historical relation between maximum temperatures and burn probabilities, and then use the estimates to predict future wildfire risk under forecast temperatures in the year 2060.

Historical wildfires and weather. To estimate the relation between temperature and wildfire risk, I use data on past wildfire burns and temperatures between 1981 and 2019 in California. I compute the average maximum summer temperature by year and resolution-7 hexagon using monthly data from PRISM (2020). I identify hexagons that burn each year from the maps of wildfire perimeters published by CAL FIRE (FRAP, 2019), considering as burned a resolution-9 hexagon that has more than 80% of its area within a wildfire perimeter.

Future weather. I obtain measures of future and current maximum temperatures from the Localized Climate Analogues (LOCA) Downscaled Climate Projections from Cal-Adapt (Cal-Adapt, 2018; Pierce et al., 2018). There exist different projections with different future emissions scenarios and different climates. The RCP 4.5 scenario represents a medium emissions future where societies work to reduce greenhouse gas emissions. The RCP 8.5 scenario represents a "business as usual" future that is used to explore a higher emissions scenario. I use four global climate models that represent a range of possible futures for California (Pierce et al., 2018). First, I download the daily projections for maximum temperatures until the year 2100 and compute the average maximum temperature during the summer of each year. Then I map pixels to resolution-5 hexagons in Southern California using the closest distance between centroids. Last, I average the maximum temperatures over 30-year periods.

Estimation. I estimate the following regression:

$$Fire_{jt} = \exp\left[\alpha^T \ln(MaxTemp_{jt}) + \xi_j + \xi_t + e_{jt}\right],$$

where j identifies a resolution-7 hexagon, t is a year between 1981 and 2019, $Fire_{jt}$ is a dummy that indicates a wildfire burn, $MaxTemp_{jt}$ is the average summer maximum temperature in degrees Celsius; ξ_j and ξ_t are hexagon- and year-fixed effects, respectively; and e_{jt} is a residual. I mark a resolution-7 hexagon as burning during a given year if at least one of its children that are resolution-9 hexagons burned. I estimate this regression with data for the entire state of California. Table A.4 in the appendix shows the estimates, where columns differ in the sets of included fixed effects. My preferred specification (column 4), with year and resolution-5 hexagon fixed effects, yields an estimate $\widehat{\alpha} = 2.433$.

I then use the estimated elasticity of wildfire probability with respect to temperature together with climate projections to generate simple predictions of future wildfire risk driven by climate change. I assign the same resolution-7 temperature to all resolution-9 children and compute counterfactual wildfire risk δ_i' as a function of current risks δ_i, the ratio of future to current temperatures, and the elasticity estimated above:

$$\delta_i' = \delta_i \left(\frac{MaxTemp_i^{CF}}{MaxTemp_i}\right)^{\alpha^T}.$$

VI Counterfactual Scenarios

In this section, I use the model to study the impact of policies aimed at allowing more housing construction in central areas and reforms to insurance markets that make premiums more sensitive to wildfire risk.

I consider two counterfactual scenarios. First, I explore the effects of up-zoning areas within half a mile of a major transit stop in the City of San Diego—known as Transit Priority Areas (TPAs). I implement this scenario by increasing housing capacity $\bar{H}_i$ by 10% in those areas. Second, I evaluate a cost-based insurance pricing schedule that reduces the degree of cross-subsidization. I implement this reform by setting premiums in the new equilibrium to $p_i' = 1.18\,\delta_i$. This schedule

follows Boomhower et al. (2024) and corresponds to setting premiums equal to expected losses plus an 18 percent risk load.

In recent years, state-level policymakers in California have been active in passing laws to incentivize homebuilding. Two examples, enacted in late 2021, are SB 9 and SB 10 (Sisson, 2022). SB 9 allows single-family lots to be split into two and permits duplexes on each of the resulting lots (effectively allowing four homes where previously only one was permitted). SB 10 allows local governments to rezone for developments of up to 10 units in urban infill or transit-adjacent parcels without additional environmental review.

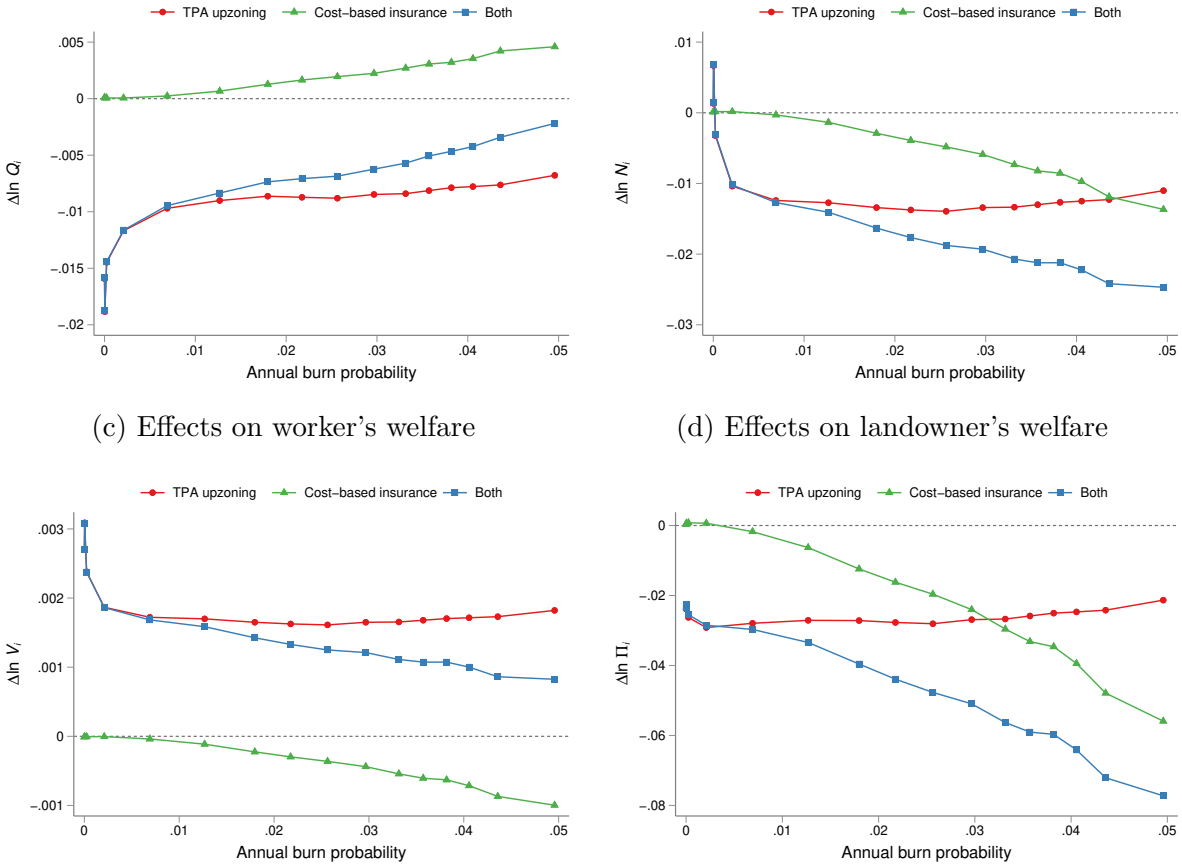
I find that up-zoning TPAs, a policy change similar to SB 10, reduces rents across the city, especially in safer areas. Panel a of Figure 5 illustrates this result with a binned scatter plot of counterfactual rent changes (y-axis) against burn probabilities (x-axis). This pattern arises because wildfire risk and TPAs are spatially correlated: major transit stops tend to be located in central parts of the city, far from the high-risk urban periphery. Falling rents in central areas lead to a reallocation of residents from high-risk areas toward areas that do not burn, as shown in Panel b. Unsurprisingly, workers are better off, with the largest improvements in residential values in the safest areas (Panel c). The up-zoning policy generates both winners and losers among landowners: gains are concentrated in relatively safe areas, but profits fall in most locations (Panel d).

Reforming the insurance market so that premiums reflect expected losses plus an 18% risk load, which reverses the pattern of cross-subsidization evident in Figure 2, reduces housing development costs in relatively safer areas and increases them in the riskiest areas. This leads to higher rents in most locations, with larger increases in areas with higher burn probabilities (Panel a of Figure 5). As a result, population decreases in the riskiest areas and increases in relatively safer ones (Panel b). The rise in rents dominates the welfare effects for workers, who are worse off overall. Landowners in areas where insurance premiums fall benefit (Panel d), and those facing higher premiums experience losses.

Figure 5: Counterfactual Scenarios

(a) Effects on rents

(b) Effects on populations



(c) Effects on worker's welfare

(d) Effects on landowner's welfare

Note: Binned scatter plots of simulated counterfactual changes vs. burn probabilities.

VII Conclusion

This paper shows that urban institutions play a central role in shaping exposure to wildfire risk. In San Diego, stringent land-use regulations in safer central neighborhoods, combined with insurance pricing that weakly reflects underlying risk, help push development toward the fire-prone urban fringe. Using a quantitative spatial equilibrium model disciplined by detailed data on zoning, wildfire risk, insurance, and commuting, I quantify the amenity costs of wildfire exposure and the way these costs interact with housing supply.

Policy simulations suggest that modest up-zoning of central, low-risk areas can reduce average exposure to wildfire risk, lower rents in safer neighborhoods, and raise worker welfare, while generating mixed effects on land values. By contrast, moving to cost-based insurance premiums shifts population away from high-risk locations but tends to raise rents and reduce worker welfare on average, with gains accruing to landowners in safer areas and losses in riskier ones. Taken together, these results highlight a key policy trade-off: interventions that improve the spatial allo-

cation of development relative to wildfire risk may come at the cost of higher housing prices and nontrivial distributional consequences. Ongoing work will extend these counterfactuals and explore joint reforms of land-use and insurance markets that can reduce wildfire exposure without sharply worsening affordability.

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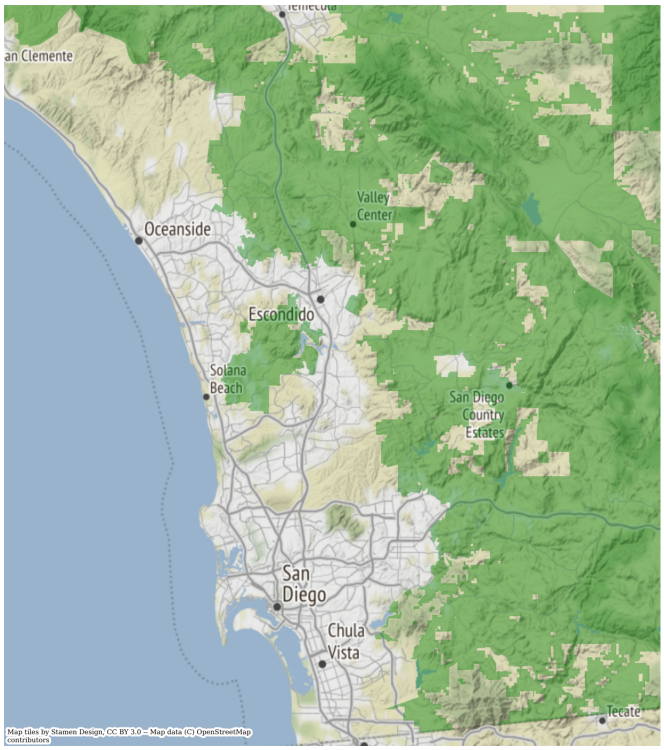
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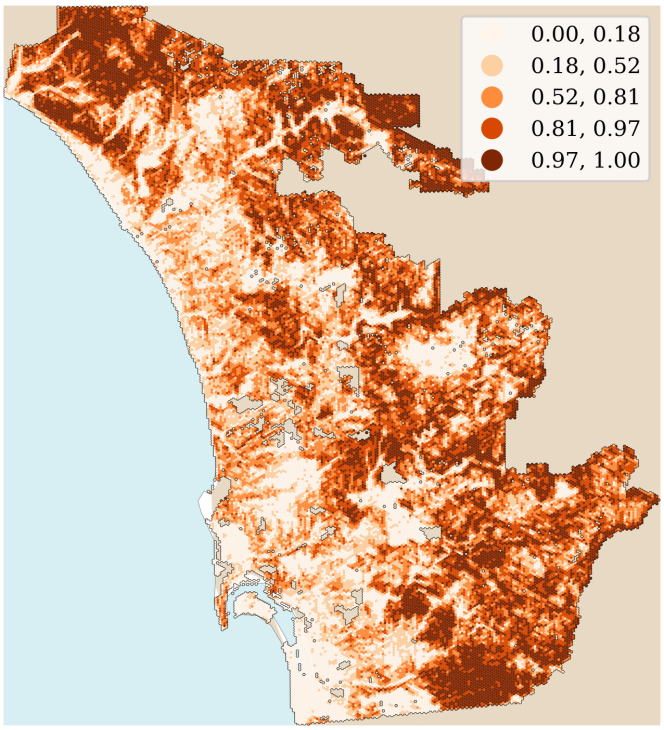
A Additional Figures And Tables

Figure A.1: The San Diego metropolitan area



Notes: The areas shaded in green are protected land owned by the State of California or the federal government. The San Diego metropolitan area is contained in the county of San Diego, located in the southwestern corner of California. As of the 2020 census, its population of 3.3 million makes it the second most populous county in California and the fifth most populous in the country. To the south, the metropolitan area is limited by the U.S.–Mexico border, and to the northwest, north of Oceanside, by land owned by the U.S. military. From east to west, the San Diego metropolitan area stretches from the Pacific Ocean to the Peninsular Ranges, beyond which is the Colorado Desert.

Figure A.2: Fraction of area of steep slope (greater than 15%)



Notes: Choropleth maps of the fraction of resolution-9 regular hexagons that have slopes over 15%. The source of the slope map is the LUEG-GIS Service, Planning & Development Services, County of San Diego.

Table A.1: Instrumental variable estimates of the amenity effects of wildfire risk

	$\ln B_i$		
	(0)	(1)	(2)
δ_i	-2.695***	-4.104**	-6.576**
	(0.263)	(1.305)	(2.191)
Topo., Weather, Dist. controls	Yes	Yes	Yes
Hex-7 fixed effects	Yes	Yes	Yes
Estimator	OLS	IV	IV
Observations	13,925	13,925	13,925
F-stat (CD)		91.20	24.16
F-stat (KP)		30.24	6.88

Notes: The units are the percentage change due to 1 standard deviation increase in burn probability (δ_i). Standard errors clustered by resolution-7 hexagon in parentheses. Asterisks indicate 10% (*), 5% (**), and 1% (***) significance. The Cragg-Donald (CD) and Kleibergen-Paap (KP) statistics correspond to non-robust and heteroskedasticity-robust multivariate analogues to the first-stage F stats. Instrument (1): interaction of hex-level topography and weather (X_i^B) with 1km-resolution non-anthropogenic burn probability (Parisien et al., 2012). Instrument (2): interaction of X_i^B with the leave-out pre-2010 cumulative burn history in the resolution-7 hex.

Table A.2: Estimates of wildfire risk premiums in property insurance

	Average premium					
	(1)	(2)	(3)	(4)	(5)	(6)
Avg. Burn prob.	0.927***	0.895***	0.831***	0.958***	0.927***	0.862***
× Avg. Coverage	(0.144)	(0.145)	(0.187)	(0.153)	(0.155)	(0.198)
Avg. Coverage	0.00136***	0.00139***	0.00156***	0.00136***	0.00139***	0.00156***
	(0.000364)	(0.000397)	(0.000480)	(0.000365)	(0.000398)	(0.000481)
Mortgage share		36.48	20.57		38.76	20.97
		(88.93)	(87.06)		(88.43)	(86.52)
Seasonal share		6.462	-550.0**		25.04	-528.8**
		(222.6)	(223.8)		(222.6)	(225.7)
Vacant share		228.6	534.7***		226.4	529.2***
		(183.5)	(192.8)		(183.6)	(193.4)
Year built		-0.700	-3.211*		-0.614	-3.114*
		(1.495)	(1.684)		(1.501)	(1.688)
Rented share			-4250.4*			-4194.4*
			(2430.1)			(2432.0)
Home value			-0.201			-0.200
			(0.164)			(0.164)
Covariance				-1242.4*	-1247.3*	-1012.6
× Yr=2010				(738.8)	(714.6)	(738.9)
Covariance				-605.8	-613.3	-578.4
× Yr=2018				(732.1)	(706.8)	(720.7)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
ZIP code FE	Yes	Yes	Yes	Yes	Yes	Yes
N	2,666	2,610	2,576	2,666	2,610	2,576
R^2	0.974	0.973	0.975	0.974	0.973	0.976

Notes: OLS regressions at ZIP-code level. Standard errors in parentheses clustered by ZIP code. Asterisks indicate 10% (*), 5% (**), and 1% (***) significance.

Table A.3: Estimates of property damages implicit in insurance premiums

	Total premium		
	(1)	(2)	(3)
Exposure	44490.3**	41505.7*	64498.8***
	(22551.7)	(22607.0)	(23285.4)
Units	296.2***	312.1***	293.6***
	(47.27)	(48.44)	(49.00)
Mortgage share		-1586293.6***	-1803521.2***
		(462902.6)	(482409.8)
Seasonal share		627807.5	1621428.9**
		(612639.9)	(628620.8)
Vacant share		-675003.5	-1626028.0***
		(534956.5)	(556507.0)
Year built		-16663.0***	-20412.9***
		(4584.8)	(5606.9)
Rented share			-2152132.0
			(3279947.4)
Home value			1.319***
			(0.265)
Year FE	Yes	Yes	Yes
ZIP code FE	Yes	Yes	Yes
N	2,676	2,614	2,578
R^2	0.986	0.986	0.987

Notes: OLS regressions at ZIP-code level. Standard errors in parentheses clustered by ZIP code. Asterisks indicate 10% (*), 5% (**), and 1% (***) significance.

Table A.4: The relation between maximum temperatures and wildfire risk

	(1) Fire	(2) Fire	(3) Fire	(4) Fire
ln(Summer Max. Temp.)	10.177***	8.123***	4.216***	2.433***
	(1.957)	(2.520)	(0.690)	(0.464)
Constant	-37.581***	-30.503***	-18.068***	-11.884***
	(6.641)	(8.549)	(2.360)	(1.573)
Year FE	No	Yes	No	Yes
Hex FE	Yes	Yes	No	No
Res-5 hex FE	No	No	Yes	Yes
Observations	754,728	754,728	2,131,740	2,131,740
Log pseudolikelihood	-117,773	-114,597	-138,374	-134,454

Notes: Poisson pseudo-maximum likelihood regressions (Correia et al., 2020). The units of observation are Uber H3 hexagons at resolution 7. The variable *Fire* is a dummy that indicates the hexagon burned that year. The summer maximum temperatures are the June–August average temperature in degrees Celsius. The wildfire occurrences are constructed from CAL FIRE data (FRAP, 2019). The temperature data is from PRISM (2020). The standard errors are one-way clustered at the level of resolution-5 hexagons by year and shown in parentheses. Asterisks indicate 10% (*), 5% (**), and 1% (***) significance.

B Data Appendix

B.1 Insurance Data

I obtained premiums and units exposed to loss by ZIP code in California from the California Department of Insurance (CDI). I obtained data from two databases. First, the Community Service Statement (CSS) database contains yearly data from 2009 to 2018 on premiums and units exposed to loss by company and policy type within each ZIP code. Second, the Personal Property Experience (PPE) database contains the amount of coverage for structures, the amount of coverage for contents, and the number of units covered by ZIP code. The available sample covers years 2009, 2011, 2013, 2015, and 2017 to 2019.

To arrive at the premium rates per dollar of coverage used in estimation I start by calculating average premiums per ZIP code using the CSS data. Then I match the data to the PPE dataset and for the matched years divide the average premium by the average dollar amount of insurance provided under Coverage A (Structure) obtained from the PPE. I restrict the data to homeowner (HO) policies.

C Model Details

C.1 Workers

Workers are ex-ante identical and make the following choices.

1. Choose whether to live in the modeled city (the San Diego metropolitan area) or in the rest of the country
2. Choose residence i
3. Choose commuting destination J
4. Choose housing space and consumption of tradable goods

Utility is Cobb-Douglas in housing space and the consumption of a freely tradable good. The expected indirect utility of worker ι living in the city is

$$\mathcal{V} \equiv \mathbb{E}_b \left[\max_i \mathbb{E}_e \left[\max_J \max_{H,C} B_i b_i(\iota) \left(\frac{C}{\beta} \right)^{\beta} \left(\frac{H}{1-\beta} \right)^{1-\beta} \right] \right]$$

subject to the ex-post budget constraint

$$C + Q_i H \leq \frac{W_J E_J e_J(\iota)}{\gamma_{iJ}} \equiv Y_{iJ}(\iota)$$

where $b_i(\iota)$ is distributed Fréchet with shape ε and mean 1 and $e_J(\iota)$ is distributed Fréchet with shape θ and mean 1, mutually iid. The scalar $b_i(\iota)B_i$ measures the residential appeal (i.e., the amenity value) of a hexagon. The scalar $e_J(\iota) E_J$ measures total effective labor units; it captures differences in the efficiency of the unit of labor endowment that the household supplies inelastically. The variable γ_{iJ} captures the cost of commuting between residential hexagon i and workplace tract J.

Workers have heterogeneous preferences over the homes offered by landowners $\ell \in (0,1)$ in location i. The value of home ℓ to worker ι is given by

$$\ln \omega_i(\ell) + (1-\zeta) \ln q_i(\ell) + \epsilon(\ell, \iota), \tag{17}$$

where $\omega_i(\ell)$ is a preference shifter common across workers, $\zeta > 1$ is a parameter, $q_i(\ell)$ is the rent price of home ℓ, and $\epsilon(\ell, \iota)$ is an idiosyncratic preference shock.

C.1.1 Location and consumption choices

Housing choice. Assuming that the idiosyncratic shock $\epsilon(\ell, \iota)$ is drawn from a i.i.d Gumbel distribution, the probability density function of choosing ℓ is

$$s_i(\ell) = \omega_i(\ell) \left(\frac{q_i(\ell)}{Q_i} \right)^{1-\zeta},$$

where I defined $Q_i \equiv \left(\int_0^1 \omega_i(\ell) (q_i(\ell))^{1-\zeta} d\ell \right)^{\frac{1}{1-\zeta}}$. The demand for housing space in ℓ is then $h_i(\ell) = \frac{s_i(\ell) q_i(\ell)}{Q_i H_i} H_i = \omega_i(\ell) H_i \left(\frac{q_i(\ell)}{Q_i} \right)^{-\zeta}$. Given the lot-specific demands, we derive the quantity aggregator over the observed demands:

$$H_i = \left(\int_0^1 (\omega_i(\ell))^{\frac{1}{\zeta}} (h_i(\ell))^{\frac{\zeta-1}{\zeta}} d\ell \right)^{\frac{\zeta}{\zeta-1}}.$$

Consumption choice. Solving backwards, optimal consumption of the tradable good and housing (before choosing a home ℓ) are given by $c_{iJ}(\iota) = \beta Y_{iJ}(\iota)$ and $h_{iJ}(\iota) = (1-\beta) Y_{iJ}(\iota) / Q_i$ so the problem becomes

$$\mathcal{V} = \mathbb{E}_b \left[\max_i \mathbb{E}_e \left[\max_J B_i b_i(\iota) \frac{Y_{iJ}(\iota)}{Q_i^{1-\beta}} \right] \right].$$

Commuting choice. Because of the i.i.d. assumption, the commuting choice problem is equivalent to choosing the work location with the highest effective income, $\mathbb{E}_e [\max_J Y_{iJ}(\iota)]$:

$$\mathcal{V} = \mathbb{E}_b \left[\max_i B_i b_i(\iota) \frac{\mathbb{E}_e [\max_J Y_{iJ}(\iota)]}{Q_i^{1-\beta}} \right].$$

Given the distributional assumptions on labor productivities, the choice probability is

$$\begin{aligned} \lambda_{J|i} &\equiv \Pr \left[J = \arg\max_{J'} \frac{W_J E_J e_J(\iota)}{\gamma_{iJ}} \right] \\ &= \frac{(W_J E_J / \gamma_{iJ})^\theta}{\sum_{J'} (W_{J'} E_{J'} / \gamma_{iJ'})^\theta} \end{aligned}$$

and we can define the expected income as

$$\begin{aligned} \mathbb{W}_i &\equiv \mathbb{E}_e \left[\max_J Y_{iJ}(\iota) \right] \\ &= \left[\sum_J (W_J E_J / \gamma_{iJ})^\theta \right]^{\frac{1}{\theta}}. \end{aligned}$$

The problem then becomes:

$$\mathcal{V} = \mathbb{E}_b \left[\max_i \; B_i b_i(\iota) \frac{\mathbb{W}_i}{Q_i^{1-\beta}} \right].$$

Residential choice. The residential choice probabilities conditional on living in the city are

$$\begin{aligned} \lambda_i &\equiv \Pr\left[i = \arg\max_{i'} B_{i'} \frac{\mathbb{W}_{i'}}{Q_{i'}^{1-\beta}} b_{i'}(\iota) \right] \\ &= \frac{\left(B_i \mathbb{W}_i Q_i^{\beta-1} \right)^{\varepsilon}}{\sum_{i'} \left(B_{i'} \mathbb{W}_{i'} Q_{i'}^{\beta-1} \right)^{\varepsilon}}. \end{aligned}$$

The expected utility of living in the city is

$$\mathcal{V} = \left[\sum_i \left(B_i \mathbb{W}_i Q_i^{\beta-1} \right)^{\varepsilon} \right]^{\frac{1}{\varepsilon}}.$$

City choice. Workers first choose whether to live in the city (i.e., the San Diego metropolitan area) and the rest of the country. The rest of the country is the outside option and offers mean utility $\mathcal{U}$. Living in the city offers expected indirect utility $\mathcal{V}$. I also assume that workers have idiosyncratic preferences for the city given by $z^{city}(\iota)$ and $z^{out}(\iota)$, i.i.d. type II extreme value with shape $\varepsilon^C > 1$ and mean 1. Under these assumptions, the number of workers who choose to live in the city, N, solves

$$\frac{N}{N^* - N} = \left(\frac{\mathcal{V}}{\mathcal{U}} \right)^{\varepsilon^C},$$

where N^* is the (exogenous) total population in the country.

Housing demand. The Cobb-Douglas utility between consumption and housing implies that the expected (before choosing place of work) housing expenditures of the workers living in i are $Q_i H_i = (1-\beta)\, \mathbb{W}_i N_i$.

C.1.2 Amenities

Amenities have endogenous and exogenous determinants. Specifically,

$$B_i = \frac{b_i}{\varphi_i^B} \underbrace{\left(\frac{\mathbb{W}_{I(i)}}{N_{I(i)}} \right)^{\eta}}_{\text{endogenous}},$$

where φ_i^B captures expected damages from wildfires and the parameter η is the elasticity of amenity values with respect to average income. The index $I(i)$ maps hexagon i to its tract I.

I assume a functional form for the amenity damages: $\varphi_i^B = \exp\left(\varphi^B \delta_i \right)$. The interpretation of φ^B is the marginal willingness to pay for a reduction in burn probability as a fraction of income. Or $(1-\beta)\, \varphi^B$ can be interpreted as the marginal willingness to pay for a reduction in burn probability in terms of an increase in rents.

C.2 Production

The final consumption good is tradable and produced under conditions of perfect competition and constant returns to scale. The technology uses labor N^y and land L^y as input and is Cobb-Douglas $A_J \left(N^y\right)^{\alpha} \left(L^y\right)^{1-\alpha}$ with parameter $\alpha \in (0,1)$ and Hicks-neutral productivity A_J that is specific to a location J. Cost minimization requires that wages equal marginal products:

$$W_J = \alpha A_J \left(\frac{L_J^y}{N_J^y}\right)^{1-\alpha}.$$

C.3 Landowners

The following elements characterize the problem of landowners.

- Preferences: landowners are risk averse with CARA (constant absolute risk aversion) preferences represented by the utility function $U(C) = 1 - \exp(-\sigma C)$, with parameter$\sigma > 0$.
- Endowment and heterogeneity: each landowner, indexed by $\ell \in (0,1)$, has one unit of the L_i land area available in location i. The landowners within a location are uniform with the exception of a demand shock denoted by $\omega_i(\ell)$. This demand shock implies that housing space in different lots ℓ is only imperfectly substitutable from the perspective of renters. I assume that these demand shocks are drawn independently and identically (i.i.d.) from distribution G with unit mean and finite variance: $\mathbb{E}_\omega[\omega] = 1$, $\mathbb{E}_\omega\left[\omega^2\right] < \infty$.
- Timing: landowners first choose housing space $h_i(\ell)$ and rents $q_i(\ell)$ under conditions of monopolistic competition, then choose insurance coverage, then property damages are realized, and finally landowners consume the tradable good with their rental income net of damages and insurance.
- Damages: there are two types of independent insurable risks to property, wildfire damages and a background (non-wildfire) risk.
  - When a wildfire happens (with probability δ_i), the landowner suffers damages φ^H per unit of housing built. The more housing is built, the larger the damages. Wildfire damages are offset by insurance coverage $x_i(\ell)$, purchased at a premium rate p_i.
  - The background risk (or "other" risk, henceforth) captures plumbing failures, theft, hail, small non-wildfire fires, etc.—perils to any house in the city, even far from the wildland. Background risks incur damages of $\varphi^o h_i(\ell)$, happen with probability δ^0, and insurance coverage $x_i^o(\ell)$ can be purchased at at premium rate of p^o.
- Technology and building constraints: landowners produce housing at a constant development cost d_i per unit. There is a maximum allowed per-lot capacity given by $\bar{h}_i$, dictated by exogenous regulations.

We solve the problem backwards.

C.3.1 Insurance choice

Omitting the lot indexing (ℓ) for convenience, ex-post consumption as a function of insurance coverages x and x^o is

$$C\left(x, x^o, n_i, n_i^o\right) \quad = \quad (q-d)\,h - \left(p_i x + p^o x^o\right) + \left[n_i^o\left(x^o - \varphi^o h\right) + n_i\left(x_i - \varphi^H h\right)\right],$$

where n_i and n^o are event indicators for wildfire and other perils, respectively. The first term $(q-d)\,h$ is pre-insurance profits. The second term $(p_i x + p^o x^o)$ collects insurance costs. The last term isolates the random part of consumption, coming from the damages net of insurance coverage.

Taking housing space h and rents q as given, the problem is to choose insurance coverages x and x^o at prices p_i and p^o to maximize expected utility:

$$\mathbb{E}_\delta[U] \equiv \max_{x,\,x^o} \quad 1 - \mathbb{E}_\delta\left[e^{-\sigma C\left(x,\,x^o,\,n_i,\,n_i^o\right)}\right],$$

where $\mathbb{E}_\delta$ denotes the expectation over property damages. The first order condition implies insurance coverage demands

$$\begin{aligned} x_i &= \varphi^H h + \frac{1}{\sigma}\ln\left(\frac{\delta_i}{1-\delta_i}\frac{1-p_i}{p_i}\right), \text{ and} \\ x_i^o &= \varphi^o h + \frac{1}{\sigma}\ln\left(\frac{\delta^o}{1-\delta^o}\frac{1-p^o}{p^o}\right), \end{aligned}$$

where we used the independence assumption.

Plugging in the coverage demands we obtain expected utility under optimal coverage choices, which after some manipulation becomes:

$$\mathbb{E}_\delta\left[U_i\left(q,h\right)\right] = 1 - e^{-\sigma\pi_i(q,h)}\,\Omega(\delta^o, p^o)\,\Omega(\delta_i, p_i),$$

where

$$\pi_i(q,h) \equiv (q - D_i)\,h$$

is the rental profit function,

$$D_i \equiv d_i + p_i\varphi^H + p^o\varphi^o$$

is the effective per-unit development cost including insurance; and

$$\Omega(\delta, p) \equiv \left(\frac{\delta}{p}\right)^p \left(\frac{1-\delta}{1-p}\right)^{1-p}$$

is a function that captures the utility cost of insurance premium distortions.

Before moving on to solve for the building and pricing decisions, I re-state the landowner's objective as a certainty equivalent consumption or profit. Certainty equivalent profits $\mathcal{C}_i$ are implicitly defined as $U\left(\mathcal{C}_i\right) = \mathbb{E}_\delta\left[U_i\left(q,h\right)\right]$. Solving for $\mathcal{C}_i$ we obtain:

$$\mathcal{C}_i(q,h) = \pi_i(q,h) - \frac{1}{\sigma}\ln\Omega^o - \frac{1}{\sigma}\ln\Omega_i,$$

where $\Omega^o \equiv \Omega(\delta^o, p^o)$ and $\Omega_i \equiv \Omega(\delta_i, p_i)$.

C.3.2 Pricing choice

Price setting. Each landowner ℓ then chooses housing space and prices solving the following problem:

$$\begin{aligned} h_i(\ell),\, q_i(\ell) &= \arg\max_{h,\,q}\ \mathcal{C}_i(q,h) \\ &= \arg\max_{h,\,q}\ \pi_i(h,q) \\ \text{subject to} & \\ h &\leq \bar{h}_i \\ h &= \omega_i(\ell)\, H_i \left(\frac{q}{Q_i}\right)^{-\zeta}. \end{aligned}$$

The second equality in the "argmax" holds because the distortion terms Ω are not a function of housing space h and they enter linearly in the certainty equivalent $\mathcal{C}_i$. That is, after solving for insurance choice, the housing choice problem is equivalent to a risk-less problem with an effective marginal cost of D_i. The Lagrangian is (replacing the housing demand h):

$$\mathcal{L}_i(q,\chi) = (q - D_i - \chi)\,\omega_i(\ell)\, H_i \left(\frac{q}{Q_i}\right)^{-\zeta} + \chi \bar{h}_i,$$

where χ is the Lagrange multiplier. Optimality requires that the solutions $q_i(\ell)$ and $h_i(\ell)$ satisfy

$$q_i(\ell) = \frac{\zeta}{\zeta - 1}\left[D_i + \chi_i(\ell)\right], \tag{18}$$

$$\chi_i(\ell) = \begin{cases} 0 & \text{if } h_i(\ell) < \bar{h}_i \\ \frac{\zeta-1}{\zeta} Q_i \left(\frac{\omega_i(\ell) H_i}{\bar{h}_i}\right)^{\frac{1}{\zeta}} - D_i & \text{if } h_i(\ell) = \bar{h}_i. \end{cases} \tag{19}$$

Equation 18 characterizes the rent-setting behavior of landowners. If the landowner builds housing below the constraint, the multiplier $\chi_i(\ell)$ is zero and the landowner sets rents at a constant markup over marginal costs, $\zeta/(1-\zeta)$. Once building is constrained, however, the landowner raises their markup ($\chi_i(\ell) > 0$) so as to equate the housing demanded to their building capacity.

Profits. Landowner's rental profits are then

$$\pi_i(\ell) = \frac{\frac{\zeta}{\zeta-1}\left[D_i + \chi_i(\ell)\right] - d_i - p_i\varphi}{\left(\frac{\zeta}{\zeta-1}\left[D_i + \chi_i(\ell)\right]\right)^{\zeta}} \omega_i(\ell)\, H_i Q_i^{\zeta}.$$

If the constraint does not bind, $\chi_i(\ell) = 0$ and

$$\pi_i(\ell) = \frac{1}{\zeta - 1}\left(\frac{\zeta - 1}{\zeta}\right)^{\zeta} D_i^{1-\zeta} \omega_i(\ell)\, H_i Q_i^{\zeta}.$$

If the constraint binds, $\chi_i(\ell) > 0$ and

$$\pi_i(\ell) = \bar{h}_i^{\frac{\zeta-1}{\zeta}} \left[\omega_i(\ell)\, H_i\right]^{\frac{1}{\zeta}} Q_i^{\zeta} - \bar{h}_i Q_i^{\zeta-1} D_i.$$

Expected utility under optimally-chosen prices and building is

$$\mathbb{E}_\delta\left[U_i(\ell)\right] \equiv \max_{q,\,h} \mathbb{E}_\delta\left[U_i(q,h)\right] = 1 - e^{-\sigma \pi_i(\ell)}\, \Omega^o\, \Omega_i,$$

and the corresponding certainty equivalent is

$$\mathcal{C}_i(\ell) = \pi_i(\ell) - \frac{1}{\sigma}\ln\Omega^o - \frac{1}{\sigma}\ln\Omega_i.$$

C.3.3 Aggregate supply

The threshold landowner. Within a location i, landowners only differ in the demand shifter for their home $\omega_i(\ell)$. From the complementary slackness condition (19), the threshold $\bar{\omega}_i$ at which a landowner becomes constrained satisfies

$$\bar{\omega}_i = \frac{\bar{h}_i}{H_i}\left(\frac{\zeta}{\zeta-1}\frac{D_i}{Q_i}\right)^{\zeta}.$$

For landowners with $\omega_i(\ell) < \bar{\omega}_i$ the building constraint does not bind, and for landowners $\omega_i(\ell) \geq \bar{\omega}_i$ the building constraint binds.

Total housing output and buildup. For constrained landowners the level of output $h_i(\ell)$ is equal to the cap $\bar{h}_i$. For unconstrained landowners with $h_i(\ell) < \bar{h}_i$, we have that using the demand function

$$\frac{h_i(\ell)}{\bar{h}_i} = \omega_i(\ell)\frac{H_i}{\bar{h}_i}\left(\frac{q_i(\ell)}{Q_i}\right)^{-\zeta},$$

and then using the optimality condition for unconstrained landowners $q_i(\ell) = \frac{\zeta}{\zeta-1}D_i$ and replacing the definition of the threshold $\bar{\omega}_i$ we obtain

$$\frac{h_i(\ell)}{\bar{h}_i} = \frac{\omega_i(\ell)}{\bar{\omega}_i}.$$

Therefore, landowner's level of output $h_i(\ell)$ is proportional to their idiosyncratic demand shock $\omega_i(\ell)$ within the cross-section of unconstrained landowners. We then replace $h_i(\ell) = \bar{h}_i\omega_i(\ell)/\bar{\omega}_i$ into the demand aggregator to obtain total housing in i:

$$H_i = H\left(\bar{h}_i, \bar{\omega}_i\right) = \bar{h}_i L_i \underbrace{\left(\bar{\omega}_i^{-\frac{\zeta-1}{\zeta}}\int_0^{\bar{\omega}_i}\omega dG(\omega) + \int_{\bar{\omega}_i}^{\infty}\omega^{\frac{1}{\zeta}}dG(\omega)\right)^{\frac{\zeta}{\zeta-1}}}_{\equiv\mathcal{H}(\bar{\omega}_i)}.$$

The total housing cap in i is defined as

$$\begin{aligned}\bar{H}_i &\equiv \lim_{\bar{\omega}_i\to 0} H\left(\bar{h}_i, \bar{\omega}_i\right)\\ &= \bar{h}_i L_i\left(\int_0^{\infty}\omega^{\frac{1}{\zeta}}dG(\omega)\right)^{\frac{\zeta}{\zeta-1}},\end{aligned}$$

which is only a function of the building constraint ($\bar{H}_i = \bar{H}(\bar{h}_i)$). The total buildup rate, defined as $u_i \equiv H_i/\bar{H}_i$, is then

$$u_i = u(\bar{\omega}_i) = \left(\frac{\bar{\omega}_i^{-\frac{\zeta-1}{\zeta}}\int_0^{\bar{\omega}_i}\omega dG(\omega) + \int_{\bar{\omega}_i}^{\infty}\omega^{\frac{1}{\zeta}}dG(\omega)}{\int_0^{\infty}\omega^{\frac{1}{\zeta}}dG(\omega)}\right)^{\frac{\zeta}{\zeta-1}}.$$

The buildup rate is only a function of $\bar{\omega}_i$ and is strictly decreasing, $u'(\bar{\omega}_i) < 0$. Moreover, $\lim_{\bar{\omega}\to\infty} u(\bar{\omega}) = 0$ and $\lim_{\bar{\omega}\to 0} u(\bar{\omega}) = 1$ so $u_i \in [0,1]$.

The supply curve. Replacing the optimal price setting conditions into the price index $Q_i =$

$\left(\int_0^1 \omega_i(\ell)\left(q_i(\ell)\right)^{1-\zeta} d\ell\right)^{\frac{1}{1-\zeta}}$ we obtain the inverse supply curve:

$$Q_i = \mathcal{M}(\bar{\omega}_i)\ D_i,$$

where the markup $\mathcal{M}$ is defined as

$$\mathcal{M}(\bar{\omega}_i) \equiv \frac{\zeta}{\zeta-1}\left(\int_0^{\bar{\omega}_i} \omega dG(\omega) + \bar{\omega}_i^{\frac{\zeta-1}{\zeta}} \int_{\bar{\omega}_i}^{\infty} \omega^{\frac{1-\zeta}{\zeta}} dG(\omega)\right)^{\frac{1}{1-\zeta}}.$$

The markup is greater than one ($\mathcal{M} \geq \frac{\zeta}{\zeta-1} > 1$) and strictly increasing ($\mathcal{M}' > 0$). As we approach a situation where no landowners are constrained, the markup approaches the unrestricted monopolistic competition markup: $\lim_{\bar{\omega}\to\infty} \mathcal{M}(\bar{\omega}) = \frac{\zeta}{\zeta-1}$.

Since there is a one-to-one mapping between the cutoff $\bar{\omega}_i$ and the buildup rate $u_i = H_i/\bar{H}_i$, we can re-write the inverse supply equation in terms of buildup rates:

$$Q_i = \mathcal{M}(u_i)\ D_i.$$

With very low buildup, the markup approaches the unrestricted monopolistic competition markup: $\lim_{u\to 0} \mathcal{M}(u_i) = \frac{\zeta}{\zeta-1}$. When we approach full buildup the markup becomes arbitrarily large: $\lim_{u\to 1} \ln \mathcal{M}(u_i) = \infty$.

The empirical supply curve. For estimation and simulations I am interested in the supply equation in log changes:

$$\Delta \ln Q_i = \Delta \ln \mathcal{M}(u_i) + \Delta \ln D_i.$$

To make this equation tractable I approximate the changes in markups as follows. First, I use a first order approximation of the markup changes around the initial buildup rate u_i:

$$\Delta \ln \mathcal{M}(u_i) \approx \mu(u_i)\, \Delta \ln u_i = \mu(u_i)\left(\Delta \ln H_i - \Delta \ln \bar{H}_i\right),$$

where $\mu(u_i) \equiv \mathcal{M}'(u_i)\, u_i/\mathcal{M}(u_i)$ is the markup elasticity. Second, I parametrize the markup elasticity with a first order approximation around the average buildup rate $\bar{u}$:

$$\mu(u_i) \approx \underbrace{\mu(\bar{u})}_{\equiv \mu_H} + \underbrace{\mu'(\bar{u})}_{\equiv \mu_U}(u_i - \bar{u}).$$

Substituting these expressions into the supply function we arrive at

$$\Delta \ln Q_i = \underbrace{\left[\mu_H + \mu_U(u_i - \bar{u})\right]}_{\equiv \mu_i}\left(\Delta \ln H_i - \Delta \ln \bar{H}_i\right) + \Delta \ln D_i.$$

The first coefficient of the markup elasticity $\mu_H > 0$ must be positive and captures the direct supply elasticity unrelated to buildup. The second coefficient μ_U captures the interaction with housing buildup. The supply curve is convex when that coefficient is positive, $\mu_U > 0$. That means that an increase in allowed building $\Delta \ln \bar{H}_i$ due to, for example, an up-zoning policy will decrease prices more in locations where the baseline buildup rate u_i is higher.

C.3.4 Aggregate certainty-equivalent profits

Total profits in location i are

$$\Pi_i = \int_0^1 \pi_i(\ell)d\ell = \left[\int_0^1 q_i(\ell)h_i(\ell)d\ell\right] - \left[\int_0^1 h_i(\ell)d\ell\right] D_i.$$

Aggregate revenues are given by $\int_0^1 q_i(\ell)h_i(\ell)d\ell = Q_i H_i$. Aggregate costs are defined in units of physical housing input. I choose units of the CES composite H_i so that one unit of housing space uses one unit of the underlying physical input at cost D_i.[1] Under that normalization, we have $\left[\int_0^1 h_i(\ell)d\ell\right] D_i = H_i D_i$ and aggregate profits become

$$\Pi_i = (Q_i - D_i)\ H_i.$$

Now using the inverse housing supply equation $Q_i = \mathcal{M}(u_i)\ D_i$,

$$\Pi_i = \frac{\mathcal{M}(u_i) - 1}{\mathcal{M}(u_i)} Q_i H_i.$$

Therefore, the total certainty-equivalent profits in location i are

$$\mathcal{C}_i \equiv \int_0^1 \mathcal{C}_i(\ell)d\ell = \Pi_i - \frac{1}{\sigma}\ln(\Omega^o \Omega_i)\, L_i.$$

C.4 Insurance supply

There is a regulated insurer that sells coverage to landowners in the city before the realization of property damages, and finances the payouts with the premiums earned. The insurer is restricted to price wildfire risk according to a pricing schedule $p_i = p(\delta_i; \tau)$ given by regulation. By assumption, $p(0;\tau) = 0$, so that $p(\delta_i;\tau)$ captures the additional premium allowed on wildfire risk.

Furthermore, the insurer faces a "revenue requirement condition" that caps its revenues at a constant proportion R of expected costs. The premium rate for other risks, p^o, is thus determined by the pooled self-funding condition:

$$\sum_i (p_i x_i + p^o x_i^o) L_i = R \sum_i (\delta_i x_i + \delta^o x_i^o) L_i.$$

The left side of the equation is the total premiums earned in the city. The right side of the equation is the total expected payments (i.e., the total cost for a risk-neutral insurer) plus an allowed return of $R - 1$ that captures an allowed return on investment and surplus requirements (or "risk load").

If we solve for the non-wildfire premium and plug in the wildfire premium schedule $p_i = p(\delta_i;\tau)$ we obtain:

$$p^o = R\delta^0 - (\tau - R)\frac{\sum_i \delta_i x_i L_i}{\sum_i x_i^o L_i}.$$

Whether the wildfire risk pool is self-funded depends on the sign of $\tau - R$. If $\tau < R$, wildfire risk is under-funded and we have $p^0 > R\delta^0$ (cross-subsidization). If $\tau = R$, wildfire risk is self-funded

[1] The CES housing aggregator and its dual price index are defined up to location-specific multiplicative constant. For each location i, I choose units of the composite H_i so that one unit of H_i uses one unit of the underlying physical housing input at costs D_i. This normalization pins down the units in which we measure H_i and aligns the cost of the composite with the per-unit costs in the landowner problem.

and we have $p^o = R\delta^0$ and $p_i = R\delta_i$.

C.5 Equilibrium

C.5.1 Equilibrium conditions

We can express an equilibrium of the model as the set of endogenous variables $\{\lambda_i\}, N, \{Q_i\}$ (residential shares, city size, and rents) that given the fundamentals $\{B_i\}, \{\mathbb{W}_i\}, \{D_i\}, \{\mathcal{U}\}, \left\{\bar{H}_i\right\}, N^*$ solve the following equations:

1. Optimal consumption and residential choice:
$$\lambda_i = \frac{\left(B_i \mathbb{W}_i Q_i^{\beta-1}\right)^{\varepsilon}}{\sum_{i'} \left(B_{i'} \mathbb{W}_{i'} Q_{i'}^{\beta-1}\right)^{\varepsilon}}.$$
2. Optimal city choice:
$$\frac{N}{N^* - N} = \left[\sum_i \left(B_i \mathbb{W}_i Q_i^{\beta-1}\right)^{\varepsilon}\right]^{\frac{\varepsilon^C}{\varepsilon}} \mathcal{U}^{-\varepsilon^C}.$$
3. Housing market clearing:
$$\begin{aligned} Q_i &= (1-\beta)\frac{\mathbb{W}_i \lambda_i N}{H_i}, \\ Q_i &= \mathcal{M}\left(H_i/\bar{H}_i\right) D_i. \end{aligned}$$
4. Optimal production choices and labor market clearing:
$$\lambda_{J|i} = \left(\frac{W_J E_J/\gamma_{iJ}}{\mathbb{W}_i}\right)^{\theta},$$
$$W_J = \alpha A_J \left(\frac{L_J^y}{\sum_i \lambda_{J|i}\lambda_i N}\right)^{1-\alpha}.$$

Amenities, incomes, and development costs $\{B_i\}, \{\mathbb{W}_i\}, \{D_i\}$ are further determined as follows.

- Amenities, which are endogenous if $\eta \neq 0$, are given by
$$B_i = b_i \exp\left(-\varphi^B \delta_i\right)\left(\frac{\mathbb{W}_{I(i)}}{N_{I(i)}}\right)^{\eta}.$$
- Expected income as a function of labor productivity dispersion and commuting frictions given by
$$\mathbb{W}_i \equiv \left[\sum_J \left(W_J E_J/\gamma_{iJ}\right)^{\theta}\right]^{\frac{1}{\theta}}.$$
- Housing development costs given by
$$D_i = d_i + \varphi^H p_i + \varphi^o p^o,$$

and insurance premiums are a function of burn probabilities and coverages:

$$\begin{aligned} p^o &= R\delta^o - \frac{\sum_i (p_i - R\delta_i)\, x_i L_i}{\sum_i x_i^o L_i} \\ p_i &= p\left(\delta_i; \tau\right). \end{aligned}$$

C.5.2 Specifying changes in development costs and insurance premiums

Before moving on to defining the equilibrium conditions in changes, here I present the expressions for the counterfactual changes in development productivities and premiums that would result from changes in the model fundamentals.

I calculate counterfactual changes of the development cost $D_i = d_i + \varphi^H p_i + \varphi^o p^o$ with a first order approximation:

$$\Delta \ln D_i \approx \frac{\varphi^H \tau \delta_i}{D_i} \left(\Delta \ln \tau + \Delta \ln \delta_i\right) + \frac{\varphi^o p^o}{D_i} \Delta \ln p^o,$$

where $D_i = d_i + \varphi^H \tau \delta_i + \varphi^o p^o$. This expression maps changes in wildfire premiums $\Delta \ln p_i = \Delta \ln \tau + \Delta \ln \delta_i$ and non-wildfire premiums $\Delta \ln p^o$ to changes in development costs. The changes in premiums are weighed by their importance over total unit costs: $\varphi_i^H p_i / D_i$ and $\varphi^o p^o / D_i$.

In the expression above, the changes in non-wildfire premiums is endogenous. I compute $\Delta \ln p^o$ by a first order approximation of the expression given by the self-funding condition. Specifically,

$$\begin{aligned} \Delta \ln p_o &\approx \sum_i \left(\frac{\partial p^0}{\partial p_i} \frac{p_i}{p^o}\right) \Delta \ln p_i + \sum_i \left(\frac{\partial p^0}{\partial \delta_i} \frac{\delta_i}{p^o}\right) \Delta \ln \delta_i + \sum_i \left(\frac{\partial p^0}{\partial x_i} \frac{x_i}{p^o}\right) \Delta \ln x_i \\ &= \varpi^o \sum_i \varpi_i \left(-\Delta \ln p_i + R \frac{\delta_i}{p_i} \Delta \ln \delta_i - \frac{p_i - R\delta_i}{p_i} \Delta \ln x_i\right), \end{aligned}$$

where $\varpi_i \equiv p_i x_i L_i / (\sum_{i'} p_{i'} x_{i'} L_{i'})$ is the share of total premiums accounted by location i, and $\varpi^o \equiv (\sum_i p_i x_i L_i)/(\sum_i p^o x_i^o L_i)$ measures the importance of total wildfire-related premiums relative to total premiums for other risks. Using also the expression for wildfire premiums $p_i = \tau \delta_i$ and approximating changes in coverage with changes in housing space $\Delta \ln x_i \approx \Delta \ln H_i$, the expression simplifies to

$$\Delta \ln p_o \approx \varpi^o \sum_i \varpi_i \left(\frac{R - \tau}{\tau} \left(\Delta \ln \delta_i + \Delta \ln H_i\right) - \Delta \ln \tau\right).$$

C.5.3 Equilibrium in changes

Consider a variable in two equilibriums of the model, an initial one denoted by a and a final one denoted by a'. I define proportional log changes in any given variable a as $\Delta \ln a = \ln a' - \ln a$ and discrete changes as $\Delta a = a' - a$. The equilibrium conditions then imply that the counterfactual changes between equilibria satisfy the following 4 conditions, and the fundamentals change as defined below.

1. Optimal consumption and residential choice:

$$\begin{aligned}\Delta \ln \lambda_i &= \varepsilon \left(\Delta \ln V_i - \Delta \ln \mathcal{V}\right) \\ \Delta \ln V_i &= \Delta \ln B_i + \Delta \ln \mathbb{W}_i - (1-\beta)\, \Delta \ln Q_i \\ \Delta \ln \mathcal{V} &= \frac{1}{\varepsilon} \ln \sum_{i'} \lambda_{i'} \exp\left(\varepsilon \Delta \ln V_{i'}\right)\end{aligned}$$

2. Optimal city choice:

$$\Delta \ln \lambda^C = \varepsilon^C \Delta \ln \mathcal{V} - \ln \left[\left(1-\lambda^C\right) + \lambda^C \exp\left(\varepsilon^C \Delta \ln \mathcal{V}\right)\right]$$

3. Housing market clearing:

$$\Delta \ln Q_i = \frac{\mu_i}{1+\mu_i}\left(\Delta \ln \mathbb{W}_i + \Delta \ln N_i - \Delta \ln \bar{H}_i\right) + \frac{1}{1+\mu_i} \Delta \ln D_i$$

where $\mu_i = \mu_H + \mu_U \left(u_i - \bar{u}\right)$ and $u_i = H_i / \bar{H}_i$ and $\Delta \ln N_i = \Delta \ln \lambda_i + \Delta \ln \lambda^C + \Delta \ln N^*$.

4. Labor market clearing:

$$\Delta \ln W_J = \Delta \ln A_J - (1-\alpha) \ln \left[\sum_I \frac{N_{IJ}}{N_J^w} \exp\left(\Delta \ln \lambda_{J|I} + \Delta \ln N_I\right)\right]$$

where

$$\Delta \ln \lambda_{J|I} = \theta \left(\Delta \ln W_J + \Delta \ln E_J - \Delta \ln \gamma_{IJ} - \Delta \ln \mathbb{W}_I\right)$$

and

$$\Delta \ln N_I = \ln \sum_{i \in I} \frac{N_i}{N_I} \exp\left(\Delta \ln N_i\right)$$

and $\Delta \ln N_i$ is defined as in condition 3 above.

The fundamentals change as follows.

- Amenities:

$$\Delta \ln B_i = \Delta \ln b_i - \varphi^B \Delta \delta_i + \eta \left[\Delta \ln \mathbb{W}_{I(i)} - \Delta \ln N_{I(i)}\right].$$

- Income:

$$\begin{aligned}\Delta \ln \mathbb{W}_I &= \frac{1}{\theta} \ln \sum_J \lambda_{J|I} \exp\left[\theta \left(\Delta \ln W_J + \Delta \ln E_J - \Delta \ln \gamma_{IJ}\right)\right] \\ \Delta \ln \mathbb{W}_i &= \Delta \ln \mathbb{W}_{I(i)} - \Delta \ln \gamma_i\end{aligned}$$

- Development costs:

$$\Delta \ln D_i = \frac{\varphi_i^H \tau \delta_i}{D_i} \left(\Delta \ln \tau + \Delta \ln \delta_i\right) + \frac{\varphi^o p^o}{D_i} \Delta \ln p^o,$$

where $D_i = d_i + \varphi^H \tau \delta_i + \varphi^o p^o$.

- Insurance premiums:

$$\Delta \ln p_o = \varpi^o \sum_i \varpi_i \left(\left(R/\tau - 1\right)\left(\Delta \ln \delta_i + \Delta \ln H_i\right) - \Delta \ln \tau\right).$$

C.5.4 Welfare changes

Workers. I report a utilitarian welfare measure for workers that focuses on individuals who reside in the city in the baseline equilibrium. As shown before, $\Delta \ln \mathcal{V}$ measures the change in the expected utility of living in the city between the counterfactual and the baseline. Because idiosyncratic taste shocks are i.i.d. and workers are ex-ante identical in the location choice problem, all baseline city residents experience the same expected utility change $\Delta \ln \mathcal{V}$. Moreover, $\Delta \ln \mathcal{V}$ has a direct wage-equivalent interpretation: it is the proportional change in all city wages in the baseline equilibrium that would generate the same change in expected utility as the counterfactual. A natural total (utilitarian) welfare measure for workers is then $N \Delta \ln \mathcal{V}$, which corresponds to the first-order wage-equivalent change in expected utility for the mass of individuals who initially live in the city.

To derive a monetary-equivalent total welfare change we can multiply $\Delta \ln \mathcal{V}$ by the baseline aggregate (commuting-adjusted) labor income of baseline city residents: $\sum_i \mathbb{W}_i N_i$. For direct comparability with the welfare of landowners, we can use the housing-expenditure identity ($Q_i H_i = (1-\beta)\mathbb{W}_i N_i$) to write this purely in terms of baseline rent payments:

$$\Delta \mathcal{W}^W \equiv \Delta \ln \mathcal{V} \frac{1}{1-\beta} \sum_i Q_i H_i.$$

Landowners. I consider the change in profits. A first order log-linear approximation to the change in profits is given by

$$\Delta \ln \Pi_i \approx \frac{1}{\mathcal{M}_i - 1} \Delta \ln \mathcal{M}_i + \Delta \ln Q_i + \Delta \ln H_i.$$

The markup levels are not identified, so instead I approximate them with the constant-markup lower bound $\lim_{u \to 0} \mathcal{M}(u_i) = \zeta/(\zeta - 1)$. Under that approximation, and again using the approximation for changes in markups developed above, the expression simplifies to

$$\Delta \ln \Pi_i \approx (\zeta - 1)\mu_i \left(\Delta \ln H_i - \Delta \ln \bar{H}_i \right) + \Delta \ln Q_i + \Delta \ln H_i.$$

To aggregate these changes into an utilitarian welfare measure for landowners we need to weigh by baseline profits. Because profit levels require markup levels, which I do not identify, I use the constant-markup lower bound ($\mathcal{M} = \zeta/(\zeta - 1)$). This lower bound implies the constant profit share $\Pi_i \approx \frac{1}{\zeta} Q_i H_i$, and therefore the first-order profit-flow change $\frac{1}{\zeta}(Q_i H_i) \Delta \ln \Pi_i$. Aggregating across locations, the total monetary-equivalent welfare change for landowners is

$$\Delta \mathcal{W}^L \equiv \frac{1}{\zeta} \sum_i (Q_i H_i) \Delta \ln \Pi_i.$$

D Theoretical implications

In this section I derive a set of comparative statics that highlight the main economic forces at play in the model.

D.1 Simplified equilibrium

To aid expositional clarity I re-write the equilibrium of the model assuming that there is no migration between cities, no amenity externalities ($\eta = 0$), and exogenous wages ($\alpha = 1$). Total differentiation of the equilibrium conditions yields:

$$\begin{aligned} d\ln N_i &= d\ln N + \varepsilon d\ln B_i - \varepsilon\left(1-\beta\right) d\ln Q_i, \\ d\ln Q_i &= \frac{\mu_i}{1+\mu_i}\left(d\ln N_i - d\ln \bar{H}_i\right) + \frac{1}{1+\mu_i} d\ln D_i. \end{aligned}$$

Consider changes in N and N_i that satisfy the equilibrium. Plugging in $d\ln D_i = d\ln B_i = d\ln \bar{H}_i = 0$ and solving for $d\ln N_i / d\ln N$ yields:

$$\frac{d\ln N_i}{d\ln N} = \frac{1}{1+\varepsilon\left(1-\beta\right)\frac{\mu_i}{1+\mu_i}}.$$

This expression is decreasing in μ_i, so places with higher μ_i (steeper supply) expand less when the overall city grows.

D.2 Up-zoning

Consider a local up-zoning $d\ln \bar{H}_i > 0$. Plugging in $d\ln N = d\ln B_i = d\ln \bar{H}_i = 0$ we obtain that rents and population changes as follows:

$$\begin{aligned} \frac{d\ln Q_i}{d\ln \bar{H}_i} &= -\frac{\frac{\mu_i}{\mu_i+1}}{1+\varepsilon\left(1-\beta\right)\frac{\mu_i}{1+\mu_i}} < 0, \\ \frac{d\ln N_i}{d\ln \bar{H}_i} &= \frac{\varepsilon\left(1-\beta\right)\frac{\mu_i}{\mu_i+1}}{1+\varepsilon\left(1-\beta\right)\frac{\mu_i}{1+\mu_i}} > 0. \end{aligned}$$

Rents fall when you up-zone, as building capacity increases and markups fall. Population in the up-zoned area increases as lower rents attract more residents. The strength of both effects is governed by how steep is the housing supply curve (the markup elasticity μ_i), the sorting elasticity ε, and the expenditure share on housing $1-\beta$.

D.3 Determinants of risk exposure

Consider changes in N_i, B_i and D_i that satisfy the equilibrium. Plugging in $d\ln N = 0$ yields:

$$d\ln N_i = \varepsilon \frac{1}{1+\varepsilon\left(1-\beta\right)\frac{\mu_i}{1+\mu_i}}\left(d\ln B_i - \frac{1-\beta}{1+\mu_i} d\ln D_i\right)$$

Considering now a marginal change in wildfire risk ($d\delta_i$):

$$\frac{d\ln N_i}{d\delta_i} = \varepsilon \frac{1}{1+\varepsilon\left(1-\beta\right)\frac{\mu_i}{1+\mu_i}}\left(-\varphi_i^B - \frac{1-\beta}{1+\mu_i}\frac{\varphi_i^H}{d_i + p_i\varphi_i^H}\frac{dp_i}{d\delta_i}\right)$$

Higher risk reduces population via amenities ($-\varphi_i^B$), plus via the cost channel if insurance premiums increase with risk ($dp_i/d\delta_i > 0$). If premiums are cross-subsidized such that $dp_i/d\delta_i > 0$ is small or even negative at high risk, the cost channel can reinforce or dampen the amenity channel.

E Model quantification

E.1 Estimation of location demand parameters

Estimate θ and γ^D in two steps.

1. First estimate the following bilateral commuting flow equation:

$$\ln N_{IJ} = \gamma^{dist} dist_{IJ} + \zeta_J + \zeta_I + u_{IJ}$$

2. Given the estimates ζ_J and γ^{dist}, estimate θ from

$$\zeta_J = \theta \ln W_J + \ln E_J^{\theta}$$

and use θ to recover the distance disutility as $\gamma^D = -\gamma^{dist}/\theta$.

Estimate ε and φ^B from

$$\ln Q_i^{1-\beta} = -\frac{1}{\varepsilon} \ln N_i - \varphi^B \delta_i + \zeta_I - \ln \gamma_i + \ln b_i.$$

Notice that we need to control for hexagon-level determinants of commuting market access, γ_i. Then estimate η using the estimated tract fixed effects ζ_I:

$$\zeta_I - \ln \mathbb{W}_I = \zeta + \eta \ln (\mathbb{W}_I / N_I)$$

and we use the θ estimated above to solve for $\mathbb{W}_I$ following the steps outlined in the next sub-section.

E.2 Calibration of ζ

To parametrize the elasticity of substitution across housing units within a neighborhood ζ, I use the equivalence between a one-level CES aggregator and a multinomial logit specification in which log rent enters utility (as specified in Equation 17). In this formulation, the CES elasticity ζ maps directly to the logit coefficient on log rent $1 - \zeta$. Ouazad and Rancière (2019) use San Francisco Bay area data to estimate this coefficient directly. They obtain a value of -3.027 in a specification using log rents (Appendix Table G) and a value between -0.089 and -0.299 in a specification using log house prices (Table 2). The coefficient on log rent implies a much higher elasticity ($\zeta \approx 4$) than the coefficient on log price ($\zeta \approx 1.1$–1.3), consistent with greater price sensitivity in rental demand. Because I expect mobility and substitution patterns in my setting to lie between these extremes, I adopt a midpoint value of $\zeta = 2.5$ as the baseline.

E.3 Estimation of parameters in insurance demand and supply

I first exploit variation in average premiums and fire coverage to estimate the wildfire risk premium (τ). I then use variation in total premiums and the distribution of housing exposed and not exposed to wildfire risk to estimate the composite parameters $\tau\varphi^H$ and $p^o\varphi^o$. Together with τ, we recover wildfire damages φ^H. Finally, I use these estimates to compute the cost shares and premium shares in the initial equilibrium needed for counterfactuals.

I estimate the wildfire risk insurance premium schedule $p_i = p(\delta_i; \tau) = \tau\delta_i$ using data on premiums and coverage amounts for every ZIP code California. Specifically, I observe average

premiums $\bar{p}^*_{z,t}$ (including both wildfire and non-wildfire perils) for ZIP code z and year t, and a measure of average fire coverage $\bar{x}_{z,t}$. Using the expression for total premiums implied by the model we can write

$$\bar{p}^*_{z,t} = \tau \bar{\delta}_{z,t} \bar{x}_{z,t} + \tau \text{Cov}_z(\{\delta_{i,t}\}, \{x_{i,t}\}) + p^o_t \bar{x}^o_{z,t}.$$

Therefore, given appropriate controls for non-wildfire premiums and for the within-ZIP covariance between wildfire risk and coverage, we can identify τ from a regression of average premiums on the interaction of average wildfire risk and average fire coverage.

I estimate $\tau\varphi^H$ and $p^o\varphi^o$ controlling the magnitude of wildfire and non-wildfire damages to property again using ZIP-code insurance data, but now total instead of average premiums. The model implies that total premiums in a ZIP code $p^*_{z,t}$ will be equal to

$$p^*_{z,t} \quad = \quad (\tau\varphi^H) \sum_{i \in z} \delta_i H_{i,t} + (p^o\varphi^o) H_{z,t} + \tilde{\varphi}_z + \tilde{\varphi}_{z,t}.$$

This equation says that an increase in housing space in a ZIP code increases total premiums by $p^o\varphi^o$ if the increase happens in locations within the ZIP code with no wildfire risk ($\delta_i = 0$). If instead it happens in risky locations, total premiums will increase by an additional $\tau\varphi^H$ times the increase in ZIP-code level exposure $\sum_{i \in z} \delta_i H_{i,t}$.

In the model, damages are defined per unit of housing space. However, due to data constraints, in estimation I use the count of housing units in lieu of housing space $H_{i,t}$. As a result, the estimated coefficients should be interpreted as per-unit equivalents of the per-space parameters; formally, the composite term $\tau\varphi^H$ recovers $\tau\tilde{\varphi}^H$ scaled by a risk-weighted average of home sizes, while $p^o\varphi^o$ recovers $p^o\tilde{\varphi}^o$ scaled by an (approximately) unit-weighted average of home sizes. For the counterfactuals, these parameters primarily matter through ratios and cost shares (e.g., the self-funding condition and composite unit costs), so a common scaling by average space per unit largely cancels. Deviations arise if average space per unit varies systematically with wildfire risk within ZIP codes, in which case unit-based exposure is a noisy proxy for space-based exposure. If higher-risk locations tend to have larger homes within ZIP codes, then the measured $\sum_{i \in z} \delta_i H_{i,t}$ understates the model-consistent one, which would tend to inflate the implied per-space wildfire damage equivalent; if risky-area homes are smaller, the bias goes in the opposite direction. Analogous considerations apply to the relative magnitude of wildfire versus non-wildfire damage components if the non-wildfire premium includes a larger per-policy fixed component that does not scale with housing size.

To perform counterfactual simulations, I also require measuring the development cost shares of wildfire and other risks ($\varphi^H_i p_i / D_i$ and $\varphi^o p^o / D_i$). The challenge is that the (per-period) unit cost of housing development d_i is unknown. To make progress, I note that if the damages (or reconstruction cost) are broadly similar to the upfront development or construction costs, then annualizing the damages provides an estimate for average d_i. Discounting at a rate of 5% over a 50-period horizon (and with no residual value), we have that $\bar{d} \approx \varphi^H \, 0.055$. Then the cost shares

are given by

$$\begin{aligned}\frac{\varphi_i^H p_i}{D_i} &\approx \frac{\tau\varphi^H\delta_i}{(0.055+\tau\delta_i)\varphi^H+\varphi^o p^o}\\ \frac{\varphi^o p^o}{D_i} &\approx \frac{\varphi^o p^o}{(0.055+\tau\delta_i)\varphi^H+\varphi^o p^o},\end{aligned}$$

only functions of wildfire risk δ_i and the estimated parameters τ, φ^H, and $\varphi^o p^o$.

The last piece of data needed for the simulations are the premium shares ϖ^o and ϖ_i entering the self-funding condition. I proceed by approximating the total premiums by their damage component (and ignoring the distortion term): $p_i x_i L_i \approx \tau\delta_i\varphi^H H_i$ and $p^o x_i^o L_i \approx p^o\varphi^o H_i$. Under that approximation, the wildfire premium share becomes the wildfire housing exposure share

$$\varpi_i \approx \frac{\delta_i H_i}{\sum_i \delta_i H_i},$$

and the share of total wildfire to non-wildfire premiums becomes

$$\varpi^o \approx \frac{\tau\varphi^H}{p^o\varphi^o}\sum_i \frac{H_i}{H}\delta_i.$$