EVALUATING HOUSING AFFORDABILITY POLICIES IN YOUR AREA

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A Guide for Local Policymakers

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America has a housing affordability problem. About half of the households that are renters spend more than 30% of their income on housing, meeting the federal government’s definition of housing cost-burdened. High housing costs in the country’s most productive regions are deterring some workers from pursuing their best job opportunities. Economists find that land use regulations have compounding effects that inhibit economic growth, reduce the average worker’s wages by thousands of dollars annually and limit income mobility.

The Cause

Local land use regulations restrict new housing supply, which drives up the cost of housing. Land use regulations include zoning, subdivision regulations, growth boundaries and parking requirements. Such rules restrict property owners’ ability to expand their city by building up or out. While some growing localities have reasonable housing costs now, these areas generally need more flexible land use regulations to avoid affordability problems in the future.

Impacts

- Low-income residents in high-cost regions are increasingly rent burdened. They face the most painful effects of land use regulations. Research indicates that housing markets with limited supply are even contributing to an increase in homelessness rates.

- Middle-income households are increasingly struggling in coastal cities. These cities’ land use regulations severely limit housing construction, causing housing and rental prices to rise. Affordability problems are increasingly affecting people in non-coastal regions too, in cities ranging from Boise to Austin.

- Localities that impose restrictions on new housing supply drive up the cost of housing and limit the number of people who can live in the most productive places. This is causing lower economic growth and reduced income mobility.

What can local policymakers do if they are concerned about housing affordability in their location? To start, they can review their land use regulations and permitting processes to identify rules that limit housing construction and drive up prices. The guide below identifies rules and procedures shown by research to constrain housing supply.
Identifying policies that are driving up housing costs and understanding why they have this effect is an important step to improving housing affordability in your area.

Exclusionary Zoning

With a dark history, this category of regulations refers to zoning that prices certain demographics out of particular neighborhoods or jurisdictions, making these locations inaccessible to low- or middle-income households. Research indicates that, as a whole, exclusionary zoning policies account for up to half the cost of housing in some of the nation’s most expensive cities. The costs of these policies fall disproportionately on low-income individuals.

Specific policies that contribute to exclusionary zoning include the following:

**Single-Family Zoning** - Dominating most residential land in the country, single-family zoning rules ban all but detached houses on their own plots of land.

**Minimum Lot Size Requirements** - Perhaps the best-known tool suburbs use to keep lower-income residents from moving in, minimum lot size rules require each house to sit on a yard of a certain size. This requirement can dramatically increase the cost of housing.

**Maximum Density Rules** - These rules limit the amount of housing that can be built in a specified area. They can take the form of limits on floor area ratio, units per lot or units per acre.

**Parking Requirements** - Many cities require new buildings to provide a designated number of off-street parking spaces. These regulations increase development costs and require land to be dedicated to car storage rather than higher-value uses. Off-street parking requirements subsidize driving at the expense of more walkable or transit-accessible development.

**Aesthetic Rules** - Mandates that require the use of high-priced building materials and require specific design standards drive up the cost of new construction. Some policies even require proposed projects to go through a subjective review of aesthetics or design choices, adding costly delay to housing development.

Inclusionary Zoning

Designed to counter the ill effects of exclusionary zoning, local policymakers across the country are increasingly adopting inclusionary zoning programs. Inclusionary zoning requires or incentivizes developers to designate a portion of new housing units to be sold or rented at a price deemed affordable to low- or moderate-income households, often in exchange for exemptions from housing density limits.
Despite good intentions, inclusionary zoning programs have been shown to discourage construction, resulting in further exacerbated housing shortages, rising prices for everyone who doesn’t receive a subsidized unit, and few households getting below-market-rate units.

Localities often offer density bonuses for projects that provide below-market-rate units, intended to partially or fully offset the cost of providing these units. However, the value of density bonuses rests on localities’ underlying exclusionary zoning; if local rules permitted homebuilders to provide as much housing as they think would be profitable, density bonuses wouldn’t have any value. Inclusionary zoning therefore cannot be a remedy to exclusionary zoning.

Where inclusionary zoning raises housing prices, the burden of this policy falls hardest on low-income households that are not lucky enough to qualify for a unit that is designated as affordable.

Other land use regulations also constrain housing supply and make housing more expensive. These regulations present reform opportunities for local policymakers seeking to create options for more, lower-cost housing construction.

**Historic Preservation**

These limits on redevelopment for landmarked neighborhoods and properties can prevent neighborhoods from accommodating more housing units over time. Research on the effects of historic preservation on house prices indicates it has mixed effects on the values of preserved homes, depending on their redevelopment option value. But in all cases, historic preservation limits the supply of new housing and contributes to regional housing cost increases.

Along with other land use restrictions, historic preservation rules can even disrupt a housing market’s natural filtering process. In a relatively liberally regulated market, new construction is often highly desirable, attracting high-income residents from the region. As they move into new construction, they free up less expensive housing for lower-income households who move into their previous housing, freeing up even lower-cost housing in the process. But when regulations prevent new construction, this process can turn into “reverse filtering,” where increases in the demand for housing lead high-income residents to bid up the price of existing housing over time, potentially shutting lower-income people out of neighborhoods or even entire localities.

**Urban Growth Boundaries**

The smart growth policy movement has sought to make cities more environmentally friendly and limit urban sprawl. While smart growth advocates generally promote walkable infill construction, they’ve had the most influence in their support of urban growth boundaries that prevent new greenfield construction. These regulations are designed to protect farms and forests from urban development, but they have been associated with increased land values within the boundaries.
**Reducing the Burden of Land Use Regulations**

The costs of land use regulations often exceed their benefits. If policymakers were to reduce land use regulations in their localities, it would promote more efficient land use development. Doing so could also attract talented workers to the cities where the best job opportunities are, thus boosting economic growth. More efficient development would create a better match of available housing to individuals who would like to move to the neighborhoods where this housing is located.

**Necessity of Permitting More Housing to be Built**

In many localities, policymakers have responded to surging housing affordability challenges with policies that don’t address the root cause—zoning restrictions that limit supply. These responses include inclusionary zoning, rent control and efforts to use zoning to prevent new construction that may be more expensive than existing construction. But while these policies may benefit a select few residents, they stand in the way of reforms that could achieve broad-based affordability, which can only be realized by permitting more housing to be built in high-demand locations. The following sections identify the specific reforms that could make housing abundance feasible.

**Reforming Zoning**

To seriously improve housing affordability, policymakers must focus on substantial land use policy reform that allows for a significant increase in housing construction, including low-cost housing. Specifically, policymakers should target exclusionary zoning rules. These regulations restrict new housing development and are a key driver of high housing prices. They include many of the restrictions discussed above:

- Single-family zoning
- Minimum lot size requirements
- Maximum density rules
- Parking requirements
- Historic preservation rules
- Urban growth boundaries

**Streamlining the Permitting Process**

In addition to zoning rules restricting supply, permitting processes that require long and costly approval processes reduce housing construction and raise the cost of the housing that does get built. Local policymakers have multiple options available to reduce the cost of their permitting processes and promote housing affordability:

- **Speed up the permit approval process:** In many cases the permit approval process for urban construction takes months or even years. In contrast, policymakers in Houston promise homebuilders approval within 30 days for single-family housing developments that comply with the city’s relatively liberal land use restrictions. Implementing similar processes for multifamily development in other cities could drastically reduce permitting costs and uncertainty, which may deter development.
• Permissionless zoning: Commonly, zoning allows “conditional” uses that require a special application and permission. Instead, a permissionless zoning approach would shift these conditional uses to “by right” status to reduce bureaucratic burden.

• Eliminate subjective review: Localities are increasingly adopting policies such as design review that require proposed developments to go before boards to determine if they meet often vague architectural requirements. Not only do these review processes raise the cost of new housing development, they also open the door to unfair permitting processes that don’t treat permit applicants equally.

Postcard From the Future

Recent reforms in localities across the country demonstrate the potential for the policy recommendations above to result in more, lower-cost housing construction:

• Reforming minimum lot size requirements: In Houston, reducing the minimum lot size requirement from 5,000 square feet to 1,400 square feet has resulted in tens of thousands of attached and detached townhouses being built in locations where only single-family houses or commercial buildings were allowed previously. In particular, neighborhoods close to job centers have seen extensive townhouse development.

• Permitting multifamily development in new locations: While some localities have little or no land where large new multifamily developments can be built, others have enacted policies that have made large-scale multifamily development feasible in areas well served by transit. Relative to other high-income coastal regions, the D.C. area has welcomed this transit-oriented development, contributing to the region’s affordability relative to its U.S. peers. In particular, Fairfax and Arlington counties have seen extensive multifamily construction near their rail stations. Similarly, Seattle’s planning for “urban villages” in some of the city’s neighborhoods that are well served by transit has made it possible for walkable neighborhoods close to job centers to accommodate many more residents over time.

• Reforming single-family zoning: In recent years, Oregon legislators eliminated single-family zoning in many of the state’s localities. At the local level, Minneapolis policymakers replaced single-family zoning with triplex zoning, and policymakers in Sacramento, Berkeley, Oakland and Charlotte are in the process of following suit. These reforms are too recent to evaluate their effect on new housing construction and affordability.

• Permitting accessory dwelling unit policies: Built on land that’s currently attached to another single-family home, accessory dwelling units are one of the most affordable types of housing that can be built because their land cost is zero. They typically rent for hundreds of dollars less per month than a standard one-bedroom apartment in the same neighborhood, and they create opportunities for greater housing flexibility to meet the needs of the country’s changing demographics.
West Coast cities including Los Angeles, Portland and Seattle have seen large accessory dwelling unit increases following reforms to their ordinances in recent years.

It’s essential for local policymakers to evaluate their land use regulations regularly. Ultimately, the proof of a reform’s success is its effect on housing construction and costs. Local policymakers should measure these outcomes to determine the need for ongoing updates to their land use policy if housing construction and affordability aren’t moving in the right direction.

By taking the above measures to reflect on current policies, explore solutions and measure progress, local policymakers can drive their city toward a future of broad-based housing affordability. A city with more affordable housing is then opened to greater economic growth, which can enable both the city and its residents to flourish.

Next Steps

This guide is based on the research of Emily Hamilton, a senior research fellow at the Mercatus Center at George Mason University. Her research focuses on urban economics and land use policy. If you would like more information on the policy recommendations or the research that has informed them, schedule a time to speak with Emily at:

https://get.mercatus.org/local-housing-affordability/