HOW LAND-USE REGULATION UNDERMINES AFFORDABLE HOUSING

The vast majority of municipalities in the United States regulate land use and development to some degree. Land-use regulations come in many forms, ranging from traditional zoning and density restrictions to newer "smart growth" policies designed to limit urban sprawl. While these rules have some benefits, they can also restrict housing supply and inflate housing prices. Land-use regulations may then be an important factor in the skyrocketing housing costs in some of America's largest cities.

A new study for the Mercatus Center at George Mason University reviews the empirical literature on the effects of land-use regulations. The study finds that these regulations reduce the supply of housing relative to what it would likely be in a free market and ultimately increase housing costs for consumers. Because lower-income households spend on average a larger percentage of their income on housing than higher-income households, the costs of these regulations disproportionately burden low-income households. Restraining the growth of land-use restrictions and rolling them back would benefit not only low- and middle-income households, but also overall economic growth.

To read the study in its entirety and learn more about its authors, Sanford Ikeda and Emily Washington, see "How Land-Use Regulation Undermines Affordable Housing."

THE EXCLUSIONARY ORIGINS OF LAND-USE REGULATIONS

Land-use regulations first appeared in the United States in the early 20th century, when progressive reformers, concerned about the potential health effects of tall buildings, passed height limitations and setback requirements in New York City. Reformers also sought to encourage suburban development because they believed that suburban communities and single-family homes would promote moral and civic virtue.

Cities and towns across the United States followed suit, adopting zoning rules that separated low- and high-density residential neighborhoods and commercial districts. Some communities also used land-use regulations to exclude racial minorities and low-income households. While the Civil

For more information, contact
Kyle Precourt, 703-993-8196, kprecourt@mercatus.gmu.edu
Mercatus Center at George Mason University
3434 Washington Boulevard, 4th Floor, Arlington, VA 22201

Rights Act of 1968 forbade explicitly race-based exclusionary zoning, some zoning regulations still implicitly affect certain demographics by pricing out low- and middle-income households.

KEY FINDINGS

Land-Use Regulations Limit Supply and Increase Costs

Specific land-use regulations differ in their intents and requirements. Some of the most common are the following:

- *Minimum lot sizes*. Minimum-lot-size regulations specify the smallest possible area that something may be built on, often to restrict housing density. Many studies conclude that the supply-limiting and cost-increasing effects of these regulations are stronger than the effects of other land-use restrictions.

- *Minimum-parking requirements*. Minimum-parking-space requirements set a floor on the ratio of parking spaces to residences for single-family homes or apartments. Like minimum-lot-size regulations, they have the effect of limiting density and pushing up housing prices.

- *Inclusionary zoning*. Requirements that developers set aside a certain percentage of new development to lease or sell at below-market rates increases developers' costs at the margin, discouraging construction and ultimately lowering the supply of housing.

- *Urban growth boundaries*. Urban growth boundaries are "smart growth" regulations designed to protect farms and forests from urban development, but have been associated with increased housing costs within the boundaries.

Municipalities are not required to conduct cost-benefit analyses before adopting land-use regulations, but urban economists have compiled data on land-use policies from around the country to study their costs and benefits. Most of their findings show that, when binding, land-use regulations lead to higher housing costs.

- One study calculates that land-use regulations imposed "regulatory taxes" of at least 10 percent in some of the most expensive cities in the United States, such as New York, Los Angeles, and Washington, DC.

- Another study, examining differences in land prices across municipal borders where land-use regulations differ, finds that regulations often lead to inefficient land use and development.

- In contrast, cities with lower levels of traditional land-use regulation remain relatively affordable as their populations grow because housing supply is able to increase along with demand.

Land-Use Regulations Fall Hardest on Lower-Income Households

Because land-use regulations tend to limit housing supply and drive up the price of housing, current homeowners tend to benefit while renters and new homeowners are harmed. This burden falls disproportionately on poor households, which spend a larger percentage of their income on housing than wealthier households, and which are more likely to rent than to own.

These effects are most pronounced in some of the most productive cities in the United States, where the high cost of housing has kept population growth relatively low despite the greater economic opportunities afforded by these cities. This foreclosing of economic opportunity could inhibit overall economic growth in the long term.

- For example, a recent study finds that, over the past 30 years, land-use regulations in high-productivity US cities have caused above-average growth in housing prices, which in turn have slowed the mid-20th century trend toward greater wage equality.
- Another study found that reducing the level of land-use regulation in New York, San Francisco, and San Jose alone would increase GDP by 9.5 percent.

POLICY RECOMMENDATIONS

Current homeowners benefit from land-use regulations' positive effect on land values—therefore many would be unlikely to support reducing such regulations at the local level. Several scholars have proposed reforms that would reduce current homeowners' losses from reductions in land-use regulation and limit the control of local politicians:

- *Home equity insurance*. Home equity insurance would provide homeowners with confidence in the value of their home, even if reductions in local land-use regulations lead to a decline in the home's value. However, such insurance would still not discourage homeowners from pursuing new land-use regulations.
- *Zoning budgets*. A zoning budget would set a ceiling on how much local politicians can restrict growth via land-use regulations, forcing them to make tradeoffs among regulations. But even with these limits on regulation, supply would still be constrained through the political process.
- *Tax Increment Local Transfers*. TILTs would transfer a portion of the increase in the tax base from any new land development to nearby property owners, allowing them to personally benefit from new development and offset some of the lost value of their property.
- *State implementation of zoning reforms*. Because state officials are likely less sensitive to local opposition to new development and they are motivated to pursue policies that will increase statewide economic growth, many of the above policies might have a better chance of succeeding if implemented at the state level.