

Affordable Housing:
Should Zoning Laws Giveth and Also Taketh Away?

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The subprime mortgage situation has focused our attention issues related to housing and home ownership. Much of the recent clamor relates to the lax conditions under which many subprime mortgages were granted and the resulting problems engendered by flat housing prices. A precursor to this situation, though, was high housing prices in many parts of the country. Many individuals applied for and received subprime mortgages who were otherwise unlikely to purchase a home. In many cases, the high price of homes made one out of reach for those with a lower income.

In some quarters, this raised the issue of “affordable” housing and has prompted the use of what is called “inclusionary zoning.” This is where new developments, or redevelopments, are required to set aside a certain percent of the development for low-income housing. Thus, zoning is used to “giveth” low-priced housing.

But before we turn to zoning as the salvation for low-income people seeking a home, let’s investigate what the causes of high-priced housing are. And guess what? It turns out that zoning is one of them. Of course, there are several causes of high housing prices and the importance of each depends on the area of the country. These causes include population and employment growth, construction costs, and the income of the area. But according to a paper by Edward Glaeser, Joseph Gyourko, and Raven Saks (“Why Have Housing Prices Gone Up?,” National Bureau of Economic Research Working Paper 11129) it’s also clear that zoning and land-use restrictions have played a major role.

In their empirical work, these researchers attribute much of the large price increases over the past two decades to regulatory/zoning limitations on new construction and development. Cities where these are strongest have had the biggest price increases. Such restrictions often come with the innocuous sounding names like “open space” or “smart growth,” but the unmistakable effects are to restrict the availability of land, to raise its price, and, consequently, raise the price of housing. Thus, zoning “taketh away” low-priced housing.

It seems rather disingenuous to favor low-price housing, support zoning that raises housing prices, and then to suggest more zoning to solve the problem that zoning itself causes.

This isn’t to say that well-implemented zoning cannot play a positive role in a community. Generally, the idea of zoning is to encourage land uses of similar types to cluster together so that one does not end up with, for example, noisy, busy industrial and

commercial activities in the midst of residential areas. This clustering can be done via contract (as in Houston) but often is done through city government with zoning. Zoning and related restrictions also are used to create more open space, lower densities, and more green space and parks. Of course, these things are all quite pleasant but they have the unambiguous effect of raising housing prices. I, for one, like parks and green space, but we should recognize that they come at a cost.

A spacious living environment, coupled with more greenery and open space certainly does sound nice, but are likely things most desired by high-income folks who already own a nice home. The land use restrictions that bring these about will raise the value of the homes they already own, increasing their wealth. Thus, the effect of such policies is to give high income people a spacious environment to enjoy and increase value of their property, but at the expense of housing affordability for others.

Helping the poor afford housing through inclusionary zoning is an odd idea, though. High-income people usually are willing to pay for a set of neighborhood amenities that are just not worth it to those with low income. These include things like swimming pools, tennis courts, decorative stone walls, and community landscaping and the prices of homes will reflect the amenities provided. We ought to allow higher-income individuals to buy these things without forcing the low-income to do so, too. But inclusionary zoning may prevent this.

One response to this quandary has been to establish below-market price controls on the low-income homes in these developments. This would seem to force developers to bear the cost of amenity provision for the low-income subset of homes by forcing them to accept a lower price for these units. However, this cost probably will be folded into the price of the other units implying that non-poor residents who move in are paying this cost. Long-time home owners are insulated from this cost, as it is foisted onto new residents in these neighborhoods, more likely to be folks who have recently moved to the area. That's equivalent to a pretty peculiar tax . . . transferring purchasing power from home owners who are new to the area to low-income home purchasers.

Worry about the ability of the poor to maintain a certain standard of living is a legitimate concern and suggests developing a sensible social safety net. Inclusionary zoning does not fill this bill. Essentially, it is like a tax on new residents in recent developments that is spent on low-income people, but only if the latter buy a home. It needlessly restricts the freedom of builders to provide developments that many homeowners desire while helping only a very narrow subset of the poor. We can do better than this.