

The Verdict Is In: Land Use Regulations Increase Housing Costs

Forbes, By Scott Beyer, Contributor, September 30, 2016 @ 04:00 p.m.

I am a cross-country traveler who covers U.S. urban issues.

Opinions expressed by Forbes Contributors are their own.

This past Monday, September 26, could prove to be a landmark day in the political discussion about urban America's housing woes. On that day, the connection between land-use regulations and higher housing costs, long made by urbanist bloggers and think-tankers, was finally acknowledged by a sitting president, when the Obama administration published the report "Housing Development Toolkit." Rather than echoing past presidential administrations, and thinking up all the ways that the federal government could subsidize homeownership, the report listed why homes are so expensive in the first place: restrictive zoning, bureaucratic delay and other regulations. The report laid out a 10-point plan for how expensive major metro areas can reduce their housing prices, mainly by liberalizing their markets to increase supply.

The surprising thing was that this call for deregulation came from a Democratic president whose answer for other government-imposed problems—from expensive health care to failing inner city schools to slow economic growth—is to advocate for more government interference. So what inspired Obama's unusual position?

It might be that the academic literature has by now grown so overwhelming that certain conclusions can't be ignored. There have been dozens of studies in recent decades, from liberal, conservative and non-partisan organizations, arriving at the same verdict: land-use regulations increase housing prices. The footnotes of the White House report linked to several of these studies. There have also been efforts to compile them by housing-focused economists such as the Mercatus Center's Sandy Ikeda and Emily Hamilton, and Cato's Randal O'Toole. Below is my own list of the highlights, which borrows from their previous efforts.

1. The Impact of Zoning on Housing Affordability (Edward Glaeser and Joseph Gyourko, Harvard University) – I mention Glaeser's work first, because he has become the academic face of the housing deregulation movement, both through his book Triumph of the City and numerous studies. He writes in this report "that in much of America the price of housing is quite close to the marginal, physical costs of new construction. The price of housing is significantly higher than construction costs only in a limited number of areas, such as California and some eastern cities," with "zoning and other land use controls, play[ing] the dominant role in making housing expensive." Other Glaeser studies analyze why housing prices have gone up; the impact of land use regulation in greater Boston; and the impact of regulations on Manhattan.

2. Government Regulation and Changes in the Affordable Housing Stock (C. Tsuruel Somerville and Christopher J. Mayer, Columbia University) – This study finds that government regulation disrupts the "filtering" process, aka the process in which new units become cheaper over time.

“We find that, consistent with theoretical models of housing, restrictions on the supply of new units lower the supply of affordable units. This occurs because increases in the demand for higher quality units raise the returns to maintenance, repairs, and renovations of lower quality units, as landlords have a stronger incentive to upgrade them to a higher quality, higher return housing submarket. This result is disturbing because it highlights how policies targeted toward new, higher income owner-occupied suburban housing can have unintended negative consequences for lower income renters.”

3. The High Cost of Free Parking (Donald Shoup, Cal-Berkeley) – This is a prominent study (and book) showing that minimum parking requirements for developments are excessive, add costs, and take space that could be used for more housing. It has inspired an entire movement of “Shoupistas” who echo Shoup’s call for parking deregulation, along with additional literature.

4. Preserving History or Hindering Growth? (National Bureau of Economic Research) – This is another study by Glaeser and several economists linking historic preservation policies in New York City with higher housing costs. Another study made the connection for Sacramento. These results seem intuitive, given that many older U.S. cities effectively restrict entire neighborhoods from development, wishing to keep them as they were a century ago or more.

5. Growth management and housing prices: the case of Portland, Oregon (J. Phillips and E. Goodstein, Contemporary Economic Policy) – This study joined previous ones in finding that the infamous growth boundary drawn around Portland, which cut off suburban development past certain points, increased housing costs by creating artificial land scarcities. These boundaries, along with milder rural preservation policies, have nonetheless become common in U.S. metro areas.

6. The Economics of Inclusionary Zoning Reclaimed: How Effective are Price Controls? (Benjamin Powell and Edward Stringham, Florida State University) – Although rent control is no longer enforced on new units in cities, because of its effect in discouraging housing growth, a milder price control called “inclusionary zoning” has replaced it. The policy mandates that developers sell a certain percentage of their units at lower prices. As this and other studies show, IZ has the same effects, discouraging construction and raising prices. It nonetheless was promoted in Obama’s toolkit, and is popular among the left-leaning faction of the pro-housing movement.

7. The Wharton Residential Land Use Regulatory Index (Joseph Gyourko, Albert Saiz and Anita Summers, University of Pennsylvania) breaks down the regulatory burden by state and major metro area. “The Planning Penalty”, a study by O’Toole, is similar, calculating the costs imposed by government regulation in 330 metro areas. Like Glaeser, O’Toole found that “the worst cases are in California, where homes routinely sell for \$500,000 to \$1 million more than they would in most of the rest of the country.”

This list only scratches the surface of the overwhelming literature. Other studies include one that links housing regulations with slower employment growth; one claiming that housing regulations increase income segregation; one claiming that regulations deter a reliable labor force from emerging; and much more.

The best part of having this academic, bipartisan consensus against land use regulations is that it may drown out all the phony theories behind why housing prices are so high. In San Francisco, to name one example, just about every last scapegoat has been targeted for eating up the housing supply, including the growing tech industry, rich Asian immigrants buying second homes, Airbnb hosts who use their units for short-term rentals, and developers who only build luxury units. Others claim that the city's proximity to water and mountains, mixed with its high residential density, makes it "land constrained"; of course, this is a self-imposed problem, since regulations prevent much of the infill and outlying land alike from getting built up. And activists have even stated that San Francisco's innate characteristics as a dense and historic city make it so desirable that no amount of supply will satiate demand; in other words, the city functions outside of basic economic laws. These arguments have been used in other expensive cities like New York and Washington, DC.

But anecdotal evidence shows that global megacities that embrace rapid construction, such as Houston and Tokyo, can maintain affordability despite populations that are both fast-growing and wealthy. The academic literature shows that this isn't an accident; regulations that restrict supply really do make areas more expensive, while a hands-off attitude creates more elastic markets and lower prices. It's nice that America's highest level of government has caught on.

Scott Beyer is traveling the U.S. to write a book on reviving cities through Market Urbanism. His blog is BigCitySparkplug.com and his Twitter handle is [@sbcrosscountry](https://twitter.com/sbcrosscountry).