



Development Dividends: Sharing Equity to Overcome Opposition to Housing

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Renters are indirect beneficiaries of housing development, since growth tends to lower rent. But the benefit of any specific project is small and spread across so many people that renters usually remain unengaged in the local politics of growth. This policy brief offers for discussion or experimentation a novel approach to changing the institutional dynamics of local land use policy: involving renters as direct beneficiaries through the payment of development dividends.

DEVELOPMENT DIVIDENDS

With a development dividend system, a property owner or developer could enlist qualified local residents by giving them a limited equity stake in housing construction, a right that would pay out a specific dividend if the project were successfully completed. The beneficiaries would have an incentive to directly advocate in favor of a specific development. If the development were approved and completed, the beneficiaries would be paid; otherwise they would not.

The beneficiaries in a development dividend system would be people who choose to register themselves and certify that they are renters. A property owner or developer who plans to seek regulatory relief would register separately and would be randomly connected to specific beneficiaries in the system.

Development dividends bear some resemblance to inclusionary zoning and to community benefit agreements. Like inclusionary zoning, development dividends benefit those who are under the most pressure from high housing costs. And like community benefit agreements, they promise an immediate, tangible benefit from housing development. In practice, however, community benefit

agreement negotiations are adversarial, since they are based on the idea that the developer ought to compensate the community. The development dividend model intends to be cooperative and is based on the idea that renters and developers jointly benefit from the rapid completion of housing projects and need to work together to overcome political opposition to housing affordability.

A development dividend system can be implemented privately or at the state or local level. The only indispensable elements are a database of potential recipients and verification that payments are made as promised.

CONCENTRATED COSTS, DIFFUSE BENEFITS

During the 20th century, local governments gained veto power over most private land use decisions. How that power is used differs across regions in ways that reflect the institutional frameworks and incentives within which local governments operate. Contemporary land use reformers thus reasonably aim to alter institutional arrangements rather than apply political pressure for change within the existing system. This is true in polities as different as California, where land use decisions are local, and the United Kingdom, where land use policy is nationalized.¹

The benefits of strict regulation flow primarily to those who enjoy access to local common goods which would be congested by further growth, such as schools and roads. Despite being somewhat diffuse, the beneficiaries of regulation have effectively organized around zoning and include a vocal minority that famously dominates the selective public engagement typical in US land use decisions.²

In a seminal work, Mancur Olson explained why narrow interests often triumph over broad ones, leading to concentrated benefits and diffuse costs in public policy.³ He notes that a broad majority is difficult to organize, especially when the impact on each individual is small. In the case of land use regulation, there are at least three distinct groups:

- Very concentrated costs: the property owner, developer, construction workers
- Somewhat diffuse benefits: neighboring homeowners whose home values and access to low-congestion amenities is protected by regulation⁴
- Diffuse costs: renters throughout the metro area, who have fewer options and higher rent under strict regulation

In practice, the middle group appears to be of the optimal scale and location for organized action. And, crucially, the middle group largely consists of local voters.

In the tug-of-war between growth and regulation, local officials themselves are a wild card. Depending on the structure of local finance, municipal staff may welcome growth or see it as budgetary suicide.

In the aggregate, local zoning increases rents and home prices and depresses economic dynamism and opportunity.⁵ Even as individual jurisdictions, especially small ones, can reasonably take prices as given, policymakers with regional or national economic concerns have good reason to want to shift the frameworks and incentives that guide local decisions.

BRIBING THE BANDIT?

One approach toward easing regulatory stringency is to buy off the political opponents of growth. This strategy is already implemented via impact fees, whereby local governments often receive tens of thousands of dollars per new housing unit. To some extent, the fees are justified by the direct cost of building new infrastructure to serve the new housing. But the variance across jurisdictions within California suggests that impact fees are politically, rather than fiscally, justified.⁶

David Schleicher has suggested directly paying local property owners a share of the taxes accruing from new development; Mercatus Center scholar Emily Hamilton countered with a suggestion (similar in spirit to the present policy brief) that the same mechanism be used to provide housing assistance to people displaced, or at risk of displacement, by new development.⁷

In many contexts, discretionary developments are contingent on “community benefit” agreements, whereby the developer contributes to local amenities or funds or makes design changes requested by the minority of local residents who participate in the planning process. Like impact fees, these are not facially unreasonable, but they are fundamentally political in implementation.⁸ Even though community benefits are often targeted at low-income residents, the implicit incentives are perverse: those who advocate for renters can extract larger benefits when they object more vigorously to development.

Whether opponents of development ought to be paid off depends on both efficacy and ethics. If the opponents are merely potential victims of net negative externalities, then payoffs are ethically reasonable. But if opponents are primarily those who have used their political power to capture monopoly rents by suppressing competition, then paying them off is ethically unwarranted, although it may be expedient.

Development dividends alter the institutional balance not by paying off opponents but by nudging likely supporters to become vocally and visibly involved. Renters naturally favor vigorous competition in the housing supply sector: renter-heavy precincts in Houston and a few other Texas cities voted against implementing zoning, and renters favored construction by a wider margin than homeowners in a recent California poll.⁹ However, renters rarely participate in the low-profile business of local land use politics. Development dividends would give specific individuals an incentive to become involved.

IDEOLOGICAL CONSIDERATIONS

The most strictly regulated areas in the United States are those with left-leaning politics. Matthew Kahn documents that progressive voting is a predictor of low rates of residential building permitting across California cities.¹⁰ There are several potential reasons for progressive opposition to growth: local environmental concerns, trust in regulation, dislike of developers, or lack of solicitousness toward property rights.

Land use is not an obviously ideological issue: progressive land use reformers can point out that land use regulation exacerbates poverty, inequality, and greenhouse gas emissions. But these costs of regulation are less visible, while the environmental impact on building sites and the high rents in brand-new buildings are immediately apparent. Thus, the existence of an ideological gap may indicate that upfront benefits are disproportionately important.

Development dividends may also be a valuable vehicle for immediately sharing the gains from land use reform with those who did not have the opportunity to benefit from the great housing wealth boom of 1995–2018. Those excluded were disproportionately racial and ethnic minorities, immigrants, and those from families without generational wealth. Skylar Olsen notes that over half of new homebuyers rely on gifts or loans from family and friends.¹¹ However, the wealth-building or poverty-alleviating aspects of development dividends should not be overstated. Even if development dividends were very successful, they would only reach a fraction of the renter households.¹²

IMPLEMENTATION

A singular benefit of development dividends is that they can be implemented by private, local-government, or state-government action. Since the concept is novel, policymakers would be wise to observe results from small-scale implementation before relying on development dividends more broadly. The implementation options and examples below help illustrate how a development dividend system could work in practice, but they are not the only possible implementations.

Implementation Option 1: Purely Private

Imagine a private organization—Acme—with an interest in expanding housing opportunity in the San Francisco Bay area. Acme decides to implement a development dividend system. It creates a website where renters can register by submitting leases covering the past three years that show they have resided in the Bay Area. They further self-certify their income, number of dependents, and workplace address.

The same Acme website allows property owners or developers to register, noting what property they are seeking regulatory relief for, what their intent is, and how many development dividends

in what amount they commit to pay if successful. Acme sets a lower limit of \$500 per dividend but allows property owners flexibility in how many dividends to offer and how much each will be.

When a property owner or developer submits a plan, he or she is automatically and randomly matched with members of the beneficiary pool, with preference given to those who live or work in the same jurisdiction as the property under consideration and those with lower incomes or more dependents. The potential beneficiaries are notified of the details and location of the project. If they object, they can opt out and be replaced.

The system provides potential value to the property owner or developer if local regulators take the dividends offered into account in considering broader community benefits or if they are moved by the public participation of the potential beneficiaries.

Example 1: Ms. Arons owns land zoned for commercial use worth \$2 million but believes she could sell it for \$4 million if it were rezoned to allow mixed residential-commercial use. She offers 200 dividends of \$750 apiece via Acme's web interface. Acme matches Arons to 200 qualified individuals, 120 of whom live in the same jurisdiction. At a public meeting considering the proposed zoning change, renters—many of them development dividend owners—speak in favor of the change. With strong community support, local zoning officials enact the change. When the zoning change is finalized, Ms. Arons pays out the dividends and puts the property on the market.

Implementation Option 2: Density Bonus

Development dividends can be explicitly encoded into city rules governing growth, much as privately implemented inclusionary zoning is. Just as cities sometimes offer regulatory incentives for including units reserved for low-income renters or for making environmental concessions or contributions, cities can make explicit regulatory bargains for developers who offer development dividends.

This may not be as renter friendly as simply removing density restrictions altogether, and it is certainly less free market than an overall deregulation. But it may be more prorenter and liberal than any other institutional equilibrium.

Example 2: Build-R-U's Inc. buys a parcel zoned to allow 20 units in a valuable Hometown, California, location. In accordance with the city's density bonus offer, Build-R-U's offers 50 development dividends of \$2,250 each on the condition that they be matched to Hometown residents. Acme's web interface allows this jurisdictional choice. The city audits the list of matched dividend recipients. One is found to have misrepresented his address, and he is disqualified by Acme for the misrepresentation and replaced. Hometown approves a five-unit development dividend density bonus as well as a separate increase from Hometown's inclusionary zoning density bonus. As

required by Hometown, the development dividend owners receive half their payment at ground-breaking and half when the building reaches 75 percent occupancy.

Implementation Option 3: Mandatory Dividends

Just as cities' inclusionary zoning is sometimes mandatory, development dividends could be made a mandatory condition of construction. This would probably be a mistake, since it usually adds costs to high-density housing that other forms of development do not face. Imposing mandatory development dividends would be akin to taxing food to end a famine. But if a development dividend system is created, some cities may choose to impose it.

Example 3: Construction Co. has the opportunity to replace a dilapidated structure in Gotham, California. Under Gotham's mandatory development dividend rule, projects of 10 or more units must offer a schedule of development dividends. Construction Co. plans a 30-unit apartment building, offering the required 800 development dividends of \$500 each. Gotham approves the application. However, a private lawsuit filed under the California Environmental Quality Act imposes a long delay and potentially higher costs. With profit margins already tight, the project is abandoned and the development dividends are not paid. The owners of the development dividend are returned to the pool for potential future matches.

Implementation Option 4: Statewide

A state could impose statewide preemption of local regulation for projects that issue a sufficient value in development dividends. The state could impose statewide a density bonus program like that in implementation option 2, or it could more narrowly tailor development dividend preemption to overcome specific zoning barriers.

Example 4: California amends its state zoning enabling act to restore "additive zoning" as the default, allowing housing to be built in commercially zoned districts (but not vice versa). However, low-income communities raise concerns that the new opportunities will cause gentrification. To address their concerns while maintaining conceptual uniformity statewide, California's amendment allows cities to impose density dividend requirements (as in implementation option 3) in the commercial zones of low-income areas but preempts such mandates elsewhere.

CONCLUSION

Land use reformers are seeking politically viable approaches to restoring healthy housing markets in high-cost metros. This policy brief offers development dividends as a potential solution. Development dividends are designed to directly and immediately benefit those who have borne the costs of the housing affordability crisis most heavily and who are least engaged in local political debates.

Development dividends can be privately implemented, recognized by cities on a piecemeal basis, or used as part of a statewide initiative to limit the reach of local regulation. However they are implemented, the keys to success are to avoid opacity and complexity in the system and to maintain a direct link between individual beneficiaries and specific projects.

This policy brief is intended to spark public discussion of a new concept along with other ways that the local politics of land use can be reframed and incentives realigned to make the regulatory regime less harmful to housing markets.

ABOUT THE AUTHOR

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NOTES

1. John Infranca, “The New State Zoning: Land Use Preemption amid a Housing Crisis” (Legal Studies Research Paper Series No. 18-17, Suffolk University Law School, Boston, MA, April 2, 2019); John Myers, *Yes In My Back Yard: How to End the Housing Crisis, Boost the Economy, and Win More Votes* (London: Adam Smith Institute, 2017).
2. Katherine Levine Einstein, Maxwell Palmer, and David M. Glick, “Who Participates in Local Government? Evidence from Meeting Minutes,” *Perspectives on Politics* 17, no. 1 (2019): 28–46.
3. Mancur Olson, *The Logic of Collective Action: Public Goods and the Theory of Groups* (Cambridge, MA: Harvard University Press, 1965).
4. In some cases, local development may raise the profile of a previously low-demand neighborhood and lead to a positive price spiral. When this outcome is expected, local renters oppose development and local owners favor it. Such areas are the exceptions. The University of Minnesota’s Institute on Metropolitan Opportunity finds that “[as] of 2016, there was no metropolitan region in the nation where a low-income person was more likely to live in an economically expanding neighborhood than [in] an economically declining neighborhood.” See Institute on Metropolitan Opportunity, *American Neighborhood Change in the 21st Century: April 2019*, April 2019. See also a discussion of these dynamics in Miriam Zuk and Karen Chapple, *Housing Production, Filtering and Displacement: Untangling the Relationships* (Berkeley, CA: Institute of Government Studies, 2016).
5. Kyle F. Herkenhoff, Lee E. Ohanian, and Edward C. Prescott, “Tarnishing the Golden and Empire States: Land-Use Restrictions and the U.S. Economic Slowdown,” *Journal of Monetary Economics* 93 (2018): 89–109.
6. Sarah Mawhorter and Carolina Reid, *Local Housing Policies across California: Presenting the Results of a New Statewide Survey* (Berkeley, CA: Turner Center for Housing Innovation, 2018), 17–18.
7. David Schleicher, “City Unplanning,” *Yale Law Journal* 122, no. 7 (2013): 1670–1737; Emily Hamilton, “TILTs for Income Mobility,” *Market Urbanism*, August 29, 2017.
8. Alexandra Croft Moravec, “An Analysis of Planned Unit Development (PUD) Regulations and Processes in Washington, DC: A Development Risk Management Case Study” (master’s thesis, University of North Carolina at Chapel Hill, 2009), <https://cdr.lib.unc.edu/indexablecontent/uuid:fd4996b3-7a7d-44ee-84fd-a2431a2770eb?dl=true>.
9. Bernard H. Siegan, *Land Use without Zoning* (Lexington, MA: Lexington Books, 1972), 24–28.

10. Matthew E. Kahn, “Do Liberal Cities Limit New Housing Development? Evidence from California,” *Journal of Urban Economics* 69, no. 2 (2011): 223–28.
11. The Fair Housing Act: Reviewing Efforts to Eliminate Discrimination and Promote Opportunity in Housing, Hearing before the US Committee on Financial Services, 116th Cong. (2019) (written testimony of Dr. Skylar Olsen, Director of Economic Research, Zillow Group).
12. Suppose that 10,000 dividend-providing units were built in California annually, each providing \$5,000 worth of dividends. At \$500 per recipient, that would reach 100,000 renters out of a state rental population of 5.9 million households—fewer than 2 percent each year. For comparison, California has a stock of 478,654 deed-restricted, low-income housing units, which provide a much larger per-recipient benefit each year. See California Department of Housing and Community Development, *California’s Housing Future: Challenges and Opportunities: Public Draft – Statewide Housing Assessment 2025*, January 2017, 29.