

Inclusionary Zoning Hurts More Than It Helps

Emily Hamilton

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Housing affordability is a serious problem across the country. Nationally, most households in the lowest income quintile are extremely rent-burdened, meaning that they spend half or more of their income on rent.¹ In coastal cities, where land use regulations severely limit housing construction, housing costs are a problem for middle-income households as well. In the Bay Area, even households earning \$100,000 will struggle to find housing that costs 30 percent or less of their income in most zip codes.²

In response to these affordability challenges in both high- and low-cost cities, local governments have adopted inclusionary zoning programs. These policies require or incentivize developers to designate a portion of new housing units as affordable for households making low or moderate incomes in exchange for density bonuses, allowing developers to build more market-rate housing than they would otherwise be allowed. But has inclusionary zoning actually improved housing affordability?

Inclusionary zoning programs vary widely in their implementation. While most offer density bonuses to fully or partially offset the cost of providing below-market-rate units, not all do. Some programs require developers to provide income-restricted units as a condition of building new market-rate housing, while others offer density bonuses in exchange for the optional provision of income-restricted homes. In some jurisdictions, inclusionary zoning units must be affordable to low-income residents (those earning less than half of their region's median income) while in others, inclusionary zoning units are targeted to those earning the median income or even higher.

The term “inclusionary zoning” implies that the policy should alleviate the effects of exclusionary zoning. Exclusionary zoning includes rules that limit multifamily housing construction and mandate minimum lot sizes for single-family homes. Exclusionary zoning restricts the number of

households that can live in a jurisdiction, leading home prices to be bid up by those who can afford to pay them. Empirical findings indicate that rules that restrict new housing development are a key driver of high house prices that strain the budgets of households who make at least moderate incomes or higher for their region.³

The density bonuses that inclusionary zoning programs include to offset the cost of providing below-market-rate units derive their value from underlying exclusionary zoning that prevents developers from building as much housing as they would under more liberal zoning. If inclusionary zoning density bonuses don't fully offset the cost of requiring new development to include subsidized units, the policy may further exacerbate housing shortages, driving up prices for everyone who doesn't receive a subsidized unit.

Inclusionary zoning is popular among policymakers for two reasons. First, it appears “free.” It produces affordable housing units without an outlay of tax dollars. Second, it allows policymakers to appear as if they're adopting a pro-affordability agenda without reforming the exclusionary zoning that leads to high house prices in the first place. Policymakers should not pursue inclusionary zoning as an affordability strategy. Rather, policymakers who want to create an environment of housing stability for households of all incomes should pursue land use liberalization (allowing for more abundant housing supply) along with subsidies targeted to those households that need them to afford market-rate housing.

INCLUSIONARY ZONING IN ACTION

At least 886 jurisdictions across the country have adopted inclusionary zoning programs.⁴ Inclusionary zoning is perhaps the most popular policy tool for attempting to improve housing affordability in the United States today. In policy discussions, mandatory and optional inclusionary zoning programs are often lumped together, but they can be expected to have different effects on housing markets. If the cost of providing affordable units under mandatory programs is not outweighed by the benefit of density bonuses for developers, the program as a whole will tax new housing development, resulting in less new construction. Optional programs can only increase new housing supply relative to the status quo if density bonuses make it worthwhile for developers to provide affordable housing.

Nonetheless, optional inclusionary zoning is not a path to broad-based affordability. If land use policy allows new housing to be built at diverse price points in response to demand increases, developers will not participate in optional programs because their density bonuses won't offer them value.

The value of density bonuses depends on many factors, including house prices and how much the underlying zoning restricts development. Their value will vary from neighborhood to neighborhood, increasing with land prices. In places where zoning severely restricts housing construction relative to what a freer market would provide, and house prices are high as a result, density

bonuses will be very valuable. In contrast, where land use policy allows developers to provide as much housing as is profitable, density bonuses will have no value, and inclusionary zoning programs will be a clear tax on construction.

I have studied inclusionary zoning in the Baltimore-Washington region. In this area, 15 jurisdictions have mandatory inclusionary zoning programs, and 8 have optional programs. Among those with optional programs, only Alexandria, VA, and Falls Church, VA, have produced any units.⁵ Relative to other jurisdictions with optional inclusionary zoning programs, these jurisdictions have high house prices, owing in large part to their otherwise exclusionary zoning and high demand for housing. Across the region, the median house price per square foot is \$206. Among all those jurisdictions with optional inclusionary zoning, it's \$210 on average, but in Alexandria, it's \$361 and in Falls Church it's \$417.⁶

High house prices and limitations on new housing supply make density bonuses highly valuable in Alexandria and Falls Church. Because these jurisdictions allow much less new housing than what developers would provide absent land use regulations, developers are willing to provide affordable units in exchange for providing more, very-high-priced market-rate housing units. In other jurisdictions with optional programs, underlying zoning is less binding, so density bonuses are an insufficient incentive for affordable housing construction.

Inclusionary zoning programs produce few units relative to the number of households who qualify for them based on their income. In his book *Order without Design*, Alain Bertaud reports that in New York City, with more than 8.5 million people, inclusionary zoning produced only 172 units per year in the program's first 25 years.⁷ Other programs across the country have also tended to produce few units relative to the demand for them. A 2010 estimate finds that nationally, inclusionary zoning policies have delivered between 129,000 and 150,000 affordable units during the entire time they've been implemented.⁸

The difference between the price caps on inclusionary zoning units and the prices of market-rate units is a key component in determining the size of the inclusionary zoning "tax." In very expensive markets such as New York City, this difference may be very large. In the case of one new apartment building, subsidized rents range from \$565 to \$1,067, compared to unsubsidized rents, which range from \$3,400 to \$8,957. On a yearly basis, some inclusionary zoning tenants are subsidized by nearly \$100,000.⁹ Bertaud explains, "The program is likely to have the same distributional impact as a lottery, rather than that of a social program aiming to provide affordable housing to low- and middle-income populations."¹⁰

MEASURING THE EFFECTS OF INCLUSIONARY ZONING

Inclusionary zoning provides huge benefits to a small percentage of low- and moderate-income households. But its general effect on affordability depends on whether the inclusionary zoning

tax is outweighed by the density bonuses many programs include—if it is, inclusionary zoning could lead to more abundant housing overall. Six studies have attempted to measure the effects of inclusionary zoning on jurisdictions’ new housing supply and house prices; four of these studies use data from California.

1. Bento et al. find that inclusionary zoning causes prices to rise 2 to 3 percent faster in California for those jurisdictions that have adopted it, compared to what they could have expected without inclusionary zoning.¹¹ They find that inclusionary zoning decreased single family home starts but had no effect on multifamily starts. They also find that inclusionary zoning reduced the size of housing units relative to jurisdictions without inclusionary zoning.
2. Tom Means and Ed Stringham find that inclusionary zoning programs drastically reduced overall housing affordability in the California jurisdictions that adopted them. They find that inclusionary zoning reduced housing supply by 7 percent and increased prices by 20 percent between 1990 and 2000.¹²
3. Ann Hollingshead also studied inclusionary zoning in California, looking at the effect of a court decision that reduced the tax effect of inclusionary zoning by leading some jurisdictions to increase their density bonuses and to transition from mandatory to optional programs.¹³ She finds that reducing the burden of inclusionary zoning programs led to an increase in median rents.
4. Schuetz et al. find that in the Bay Area, inclusionary zoning caused increased prices during strong markets but caused further price declines during times of broadly falling rents for the jurisdictions that adopted it, relative to what they could have expected without it. In the Bay Area they find no relationship between inclusionary zoning and new housing supply.¹⁴
5. In the same paper, Schuetz et al. estimate the effects of inclusionary zoning in the Boston region. They find that when jurisdictions adopt inclusionary zoning, doing so reduces housing supply and raises house prices, but only during periods of broadly rising house prices.¹⁵
6. Finally, in my study of inclusionary zoning in the Baltimore-Washington region, I find that mandatory inclusionary zoning has raised house prices more than 1 percent per year the program is in place, relative to what jurisdictions could have expected without it.¹⁶ Like Schuetz et al. find for the Bay Area, I find a price increase, but no effect on housing supply.

Of the six studies, four find that inclusionary zoning increases prices. Hollingshead finds that reducing the inclusionary tax effect increased market-rate prices, and Schuetz et al. find that it contributes to price increases during times of broadly rising prices but causes price decreases during times of falling prices in the Bay Area. On the supply side, three find that inclusionary zoning reduces the quantity of new housing, two find no effect, and one doesn’t examine supply effects.

All six of these studies examine the effect of inclusionary zoning on housing market outcomes *taking these jurisdictions’ exclusionary zoning policies as a given*. Under traditional zoning rules,

localities restrict landowners' rights to build housing, and typically they most stringently restrict the right to build the lowest-cost type of new housing—no-frills, multifamily apartments. Under inclusionary zoning programs, localities return some of these property rights with the condition that development includes subsidized units. Without a baseline of traditional zoning rules, the density bonuses included in most inclusionary zoning programs would have no value and inclusionary zoning would be a clear tax on new housing construction.

A BETTER PATH TO AFFORDABILITY

Relying on new housing construction to provide subsidized units is not a strategy that can lead to more housing that's affordable for more people. In cases where inclusionary zoning raises house prices generally, the costs of the policy fall hardest on the lowest-income residents who aren't lucky enough to qualify for one of the units that's been designated as affordable. Repealing exclusionary zoning is a necessary step for achieving housing markets that serve low-income people well. Layering inclusionary zoning on top of the rules that stand in the way of new relatively low-cost multifamily housing will never produce housing markets that serve the majority of low- and moderate-income households well.

High and rising house prices are not a necessary feature of large, thriving cities. Historically, US housing markets served low-income residents with low-cost housing options, such as single-room-occupancy residences and boarding houses.¹⁷ These low-cost housing options have largely been banned through city zoning regulations. Beyond eliminating shelter designed to serve low-income people, almost all American cities have designated large swaths of their land as exclusively for single-family detached housing, walling out anyone who can't afford the price of entry to expensive neighborhoods and jurisdictions. Liberalizing land use policy can allow anyone making at least a moderate income to find safe, market-rate housing that they can afford. Today, cities from Houston to Tokyo show that this is possible.¹⁸

In regions where housing is allowed to be built in response to increasing demand, new construction can be built that's affordable to households making close to median incomes, but not always for low-income residents. Over time, though, in a market where new construction is reliably delivered year after year, housing stock "filters" down as wealthier households move to newer units, leaving older homes available to the less wealthy. One study finds that the filtering process reduces inflation-adjusted home prices by 1.9 percent per year.¹⁹ A new house that costs \$200,000 today can be expected to cost \$153,000 in 15 years in today's dollars. Allowing for low-cost housing typologies, including low-rise multifamily buildings, mobile homes, and the subdivision of existing homes into multiple units allows the filtering process to start at a lower price point and to work at a faster rate.

Even with land use policy that permits abundant housing construction, however, some low-income households will struggle to afford housing. Housing security for these households requires sub-

sidies, nonprofit housing, or government-built housing. Subsidies for these households should be funded by tax dollars, not through taxing new housing construction with inclusionary zoning.

Redistributive policies, including housing vouchers or government housing, are more effective and feasible at the federal level rather than the local level, where the tax base is smaller and large tax increases may cause residents to leave for lower-tax jurisdictions. But the limits on local governments' potential to finance housing support does not mean that they should pursue inclusionary zoning in the absence of federal support. Rather, local governments should focus on doing what they can to reform exclusionary zoning rather than relying on it to give value to density bonuses. By giving the appearance of "doing something" to address housing affordability, inclusionary zoning gives local officials political cover while they fail to implement zoning reform or fund real housing support.

One argument in favor of inclusionary zoning over other housing supports is that inclusionary zoning leads to low- and high-income residents living in the same building. Research shows that low-income children benefit from moving out of high-poverty neighborhoods.²⁰ But these benefits are found at the neighborhood level, not at the building level. Low-income residents who are given vouchers that allow them to choose where to use them offer the benefit of allowing low-income people to live in cities and neighborhoods that offer economic and educational opportunities and mixed socioeconomic communities.

Reforming exclusionary zoning is a clear win for housing affordability, but it's extremely politically difficult. Some have argued that inclusionary zoning reduces opposition to new construction because neighbors support affordable housing, if not market-rate housing.²¹ This theory is not borne out in any empirical findings. While not all empirical studies of inclusionary zoning find that it reduces housing supply, none find that it increases it.

CONCLUSION

Inclusionary zoning, a policy intended to address the problem of households struggling to afford housing, may actually increase house prices generally. No studies of its effects indicate that it increases housing supply or contributes to broadly lower prices. It benefits a small portion of low- and moderate-income households rather than targeting aid at the households that need it most.

Serious improvement to housing affordability requires substantial land use policy reform that will allow significantly more housing construction, including low-cost housing typologies. Under land use policy that allows new housing to be built in response to increasing demand, inclusionary zoning would be a clear tax on construction because density bonuses wouldn't provide an offset to developers.

Even under vastly liberalized housing policy, some households will struggle to afford shelter. But taxing housing construction with the goal of creating more abundant housing for people of rela-

tively low income levels doesn't make sense. Rather than using inclusionary zoning to appear as if they're pursuing housing affordability, policymakers who are actually concerned about affordability should reform exclusionary zoning and provide targeted support to those households that need it.

ABOUT THE AUTHOR

Emily Hamilton is a research fellow at the Mercatus Center at George Mason University. Her research focuses on urban economics and land use policy. Hamilton has authored numerous academic articles and policy papers. Her writing has appeared in *USA Today*, the *Christian Science Monitor*, *Economic Affairs*, and the *Philadelphia Inquirer*. She contributes to the blog *Market Urbanism*.

NOTES

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