Greetings urban planners and policymakers,

In the 1950-1970s, investments in grade separated freeway infrastructure and urban renewal hollowed out major American cities, particularly their urban cores and core-adjacent neighborhoods. This occurred through direct dis-amenity effects of freeways and demolition from urban renewal, as well as a redistribution of metropolitan growth from core urban neighborhoods to the metropolitan fringe, induced by freeways. These public policy choices, as well as generally weak regional governance structures and highly fragmented local governments in many American metropolitan areas led to a rapid depopulation of American urban centers at a magnitude not seen in any other developed country. In recent decades, this trend of depopulation and decentralization has slowed, and in some cases, even reversed. Many core cities are beginning to see a rebirth in their urban cores, and populations ticking upwards for the first time in over half a century.

Unfortunately, due to increasingly strict zoning laws adopted over this same time period, many American cities have “forgotten how to grow,” in a sense, with zoning codes set to freeze neighborhoods in amber rather than accommodate new growth. When depopulation was at its peak, this wasn’t a major policy issue, but as cities have begun to revitalize and their population base has begun to grow, many cities are quickly running up against their own land use restrictions as they become binding constraints. Many local governments, for a variety of reasons, have been unable to accommodate the rising demand for urban housing with commensurate housing supply. A policy debate now rages nationwide, searching for solutions to the housing crisis gripping many large American metropolitan areas, and the hope is that this paper can provide a brief overview of the debate, the nuances of housing and zoning policy, and potential paths to reform being looked at around the Nation.

Recent efforts in Minneapolis, Oregon, and Seattle have shown that substantial increases in up-zoning and housing supply can be possible when the focus is on a city-wide conversation, rather than allowing the conversation about zoning to get bogged down by parochial neighborhood commissions. Neighborhood-based groups often are density-phobic and can wield inordinate veto-power over zoning and development changes. While local neighborhood concerns must be taken into account, those local concerns must be weighed against the broader concerns of regional and citywide housing organizations and tenant advocates. After the major recent zoning reform in Minneapolis, the Century Foundation summed up the arguments for, the backlash from, and the response to the backlash in reforming single-family zoning. Though focused on single-family zoning in particular, the conclusion of the piece could apply to excessive land use restrictions in any city or region:

> *“There has long been a consensus among researchers that single-family zoning is bad for housing affordability, bad for the environment, and bad for racial justice. As a matter of basic human dignity, moreover, it is humiliating for local governments to tell people of modest means that they are not welcome in that community and that their children are not welcome in the public schools. It is one thing for a market to discriminate by income; markets function by providing incentives and rewards. It is an entirely different thing for a government to put its heavy thumb on the scale of a market in favor of the wealthy, and to say that those who cannot afford to live in single-family dwellings should be banned from entire communities—that their presence would be, in essence, a “nuisance” to be kept out, akin to an industrial factory or slaughter house.”*

The major crisis at the moment in many major American cities is one of a lack of sufficient housing units. In the face of regional economic and job growth and the corresponding increase in housing demand, housing supply is not keeping pace, driving up rents and home prices. The problems are similar across many supply-constrained markets such as New York City, Los Angeles, San Francisco and other major American metropolitan areas. When demand for housing increases in an area, vacancy rates will begin to drop, and when vacancy rates drop to a certain point (generally around five percent or so) renters will begin bidding for a dwindling amount of available housing units, eventually causing upward pressure on rental prices for all existing units (and I mean *all*, while it's true housing markets are segmented, there are substitution effects between each market segment). When rental prices begin to rise, new private real estate development projects will begin to "pencil out" for developers, and supply will be increased to accommodate increasing demand. This increased supply raises vacancy rates, removing upward pressure on rents, which helps to stabilize rental rate growth and keep areas more affordable in real terms.

However, in the majority of American metropolitan area, increased supply can only be delivered on land that is zoned for higher capacity than what is already used on a current parcel of land. Though it is true that land can be "scarce" in large metropolitan areas, land that is zoned for higher density (i.e. available zoned-capacity) is far scarcer than land generally (so much so that land zoned for higher density development often comprises a miniscule fraction of total metropolitan land). In some metropolitan areas, developers can receive "re-zonings" relatively easily, thus allowing supply to be increased commensurate with demand, while in others zoning restrictions are not only strict but also rigid, meaning that developers and investors end up competing not for land generally, but mostly for land with sufficient zoned-capacity. This prevents new market entrants while dramatically driving up the price of those scarce land parcels, impeding new housing supply. Additional zoned capacity, while raising land values in the particular land parcels where up-zoning occurs, also increases competition in the land markets for developers, and thus helps to increase housing supply as well by lowering the cost of production of housing, increasing investor returns and attracting more investment into housing supply.

Unfortunately, the fact that rising rents tend to increase development as more potential projects become financially feasible has caused some well-intentioned liberals (and the focus is on liberals here because most large metropolitan areas are left-leaning on average) to believe that increased development *causes* increases in rent, when in actuality lower vacancy rates cause *both* rising rents and additional development (or, additional development to the extent allowed by zoning, of course). Thus, many get the causality backwards, believing market-rate development increases rents. In an additional unfortunate happenstance, this view of "bad developers" coming in to "raise rents" also fits with other liberal priors, as most liberals have a healthy skepticism of the benevolence of large corporations or the wisdom of unfettered free market dogma. While in many cases these priors and healthy skepticisms serve us and society well, in the case of housing it unfortunately has had a disastrous impact on the outcomes most liberals believe in: environmental sustainability, upward social mobility, housing affordability, and alleviating racial and income inequality.

In many ways, and in many liberal cities, well-intentioned (and often well-educated) people who generally have a healthy skepticism that market forces alone may not always be the answer to every problem have adopted a near-dogmatic belief that market forces simply *cannot* be a major solution to a problem. Nowhere is this clearer than when it comes to housing policy, where many believe that no amount of supply can lower rental rates, despite all empirical evidence and expert consensus to the contrary. Housing market denialism on the left is in many ways analogous to climate change denialism on the right.

Now, if you're a wonk in the area of the housing and planning debate who accepts the basic economic arguments, you're probably already ahead of us and about to point out that the old supply argument has a hole: the time-old hypothesis about amenities and induced demand. For those not aware of it, it goes something like this: "When a bunch of new market rate units deliver in a neighborhood, they usually deliver towards the top of the market, and thus attract buyers or renters with higher incomes. These buyers or renters, in turn, can attract particular retailers (think Whole Foods or Starbucks) which may have some amenity value in and of themselves, and an influx of more individuals (think Jane Jacob's 'eyes on the street') can increase the safety of a neighborhood (or at least the perception of safety). As rental rates and home prices for individual units are determined by *both* market-wide housing demand and supply, as well spatial amenities and local neighborhood characteristics, increasing development that brings higher income individuals to an area may drive up rents." This is a great argument, and one that seems to have just enough elements of truth to it that it could give an economist pause. Setting aside for a moment the morality of the implicit idea here that we should allow neighborhoods to deteriorate, experience high crime, or be deprived of amenities in hopes of keeping them "affordable," we should investigate if this general idea has merit. The idea appears theoretically plausible: increasing the supply of market rate units in one area, while putting downward pressure on regional rents, could raise them locally (i.e. it could increase affordability globally while reducing it locally).

However, theoretical ideas about housing markets are a testable hypothesis, and empirical evidence is all we can rely on in the face of ambiguous theory. In fact, such an empirical study has been done, finding that the supply impacts of new market rate housing dominate any potential induced demand effects. According to one of the few studies testing this niche hypothesis, in neighborhoods where new apartment complexes were completed, rents in preexisting units near the new apartments declined relative to those in neighborhoods that did not see new construction. Professor Monkkonen of UCLA, responding to planning documents from the Southern California Association of Governments, sums up the flaw in the induced demand analogy for housing:

> *"The package compares housing supply and affordability to [freeway expansion-] induced demand on freeways… …which they properly note is unlikely to alleviate congestion in the long run. This comparison is not apt, because freeway access is free and housing is not. Congestion occurs when the absence of prices causes a shortage. A housing crisis occurs when a shortage of housing causes high prices. This crucial difference means that new supply is almost useless in the former and incredibly important in the latter."*

Why would the supply effect of new housing dominate any theoretical "induced demand" effect? One must remember that new private development itself is a response to market pressures, namely increased market demand for housing at a particular location that is not being met with supply. In the absence of new housing, wealthy individuals will *still come* to an increasingly desirable neighborhood, regardless of *if* new housing is built to accommodate them. In the absence of new construction, these individuals will simply take the next best thing, bidding up rents in existing units, with substitution effects slowly pushing people down different market segments, ultimately increasing prices in even the most affordable market rate units. A simple analogy is the game of musical chairs, but instead of each chair going to the person who runs the fastest, it goes to the buyer willing to pay the most. Now imagine adding more players to the game, but keeping the number of chairs constant. While simplistic, this is functionally what is happening in housing markets across many major American metropolitan areas.

Many in the planning world (though none in the housing economics world) have tried to get around housing affordability issues with rent control measures. While rent stabilization measures are often seen positively for protecting the public against sudden and sharp rate increases, any long-term *binding* rent control will ultimately put downward pressure on housing supply. This area of debate has been so long-settled in the economics sphere, with near unanimous consensus from both theoretical and empirical research, that we won't bother rehashing it here, but will simply provide a link for those interested. Even rent stabilization is likely to be ineffective in the long run, as it too hinders housing supply:

> *"On rent stabilization, the strongest finding in Jenkins's overview appears to be that tenants in noncontrolled units pay higher rents than they would without the presence of rent control; one reason being that landlords need to make up the difference for lower rents in controlled units. Interestingly, one study found that New York City tenants in controlled units also had higher rents initially, because they were willing to pay more to get into a rent-controlled unit with the understanding that they would have smaller rent increases in the future. The net effect, however, is that tenants [in rent-controlled units] don't save much in the long run—they simply trade higher rents now for lower rents later… …Given the current research, there seems to be little one can say in favor of rent control. What, then, should be done to help renters obtain affordable, decent housing? A better approach may be adopting policies that encourage the production of more diverse types of housing (different densities, tenure types, unit sizes, etc.), implementing strong regulations and practices to ensure housing quality and to protect tenants from abuses; and providing targeted, direct subsidies to people who need help paying their rents."*

Even those direct rental subsidies mentioned above can be counter-productive in zoning- and supply-constrained markets, as they effectively increase "demand" for housing while supply is artificially held constant, driving up equilibrium prices. Ironically, landlords and investors, those most often chastised by well-meaning liberals vouching for public rental assistance, are often the main beneficiaries of direct rental subsidies unless rental vacancy (and, thus, competition among landlords) is high. While rental subsidies for poverty alleviation may be a prudent policy in rust belt housing markets such as Milwaukee or Detroit, they make little sense in major supply-constrained markets as a policy to improve housing affordability writ large.

Furthermore, any well-intentioned policy that attempts to saddle real estate developers with fees and exactions *beyond* the marginal public expenditures needed to accommodate the development itself (i.e. development impact fees), will end up counter-productively harming housing affordability overall. This is because developers, and the investors who fund housing development, require a certain return on investment, and anything that unnecessarily adds to those development costs or lowers potential revenue (such as with rent control or inclusionary zoning) will lead investment to shift away from housing production, thus lowering supply and raising equilibrium rents and prices. While such policies are often popular among the public, given the stereotypical view of developers as deep-pocketed and parasitic, it is ultimately renters and first-time homebuyers who will be the ones paying for any exactions thrown upon developers in the form of higher equilibrium prices stemming from reduced housing supply.

Additionally, existing homebuyers stand to benefit financially from this in three ways: (1) reduced rental and for sale housing supply increases equilibrium prices, creating a windfall in property value for existing homeowners who resist new development in the first place, (2) shifting the financial burden of providing public goods onto developers means the tax burden is shifted off of homeowners, and (3) any spatially-related public amenities paid for by fees on developers also capitalize into existing home values, providing a second property value windfall. Given that existing homeowners are almost always wealthier than renters and first-time homebuyers, this arrangement allows the wealthiest individuals in a community to free-ride and capitalize on exactions that are ultimately paid by those who are less affluent, sometimes dramatically so, an ironically regressive form of wealth transfer.

If you didn't catch it above, inclusionary zoning, something in vogue within contemporary urban planning circles, was mentioned as something [detrimental to housing supply and affordability](). This is because, similar to unwarranted exactions or rent control, inclusionary zoning comes at a cost to a developer (either by being required to add extra units, increasing costs, or by forgoing a portion of revenue for added units). Thus, the policy can create a few lucky winners, those who happen to get a below-market rate apartment, at the expense of all other renters (whether they be wealthy or poor) and first-time homebuyers. But we know what you might be thinking: what about offsets? Yes, oftentimes offsets or other compensation (such as a density-bonus, negated fees, etc.) is given to developers in exchange for additional income-restricted units. Thus, developers, if given offsets, should theoretically not reduce supply in response to inclusionary zoning requirements, which is technically true.

It all sounds too good to be true, and, unfortunately, it *is* too good to be true. You see, many offsets have a cost to the public, even if that cost isn't immediately apparent. Frankly, you can't get something for nothing, and there is a downside to every artificial market distortion. Even density-bonus offsets, or allowing developers to build more units in exchange for including income-restricted units, comes at an unseen cost. The very fact that the existing zoning did not allow those units to be built *without* the density bonus *was* the hidden cost to renters and first-time homebuyers because it was already implicitly restricting housing supply. Even in the hypothetical example of inclusionary zoning coupled with a land tax, as proposed in the appendix of this article, there would still be a market response, as the example fails to consider that: (1) land uses may not be fixed, and (2) investment in real estate is also not fixed. Thus, investors could redistribute their investments to other types of land uses (hotels, offices, etc.) or other investment types altogether. We are not advocating to get rid of inclusionary zoning requirements, even if they are secretly counter-productive, because attempts to get rid of inclusionary zoning would *also* likely be counterproductive to increasing housing supply. However, it is imperative that inclusionary zoning is not looked to as a sort of panacea for housing affordability writ large, and indeed the proportion of housing units delivered under inclusionary zoning remains a tiny fraction of the overall housing supply.

Increasing housing supply is the only long term and sustainable strategy for achieving some form of overall housing affordability, and much of this will need to be done through the private market (given the status of local, state, and federal budgets, a mass public infusion of housing supply appears unlikely). While it is true the private market may not provide for those who are most desperate, diminishing the overall affordability burden will help shrink the pool of those requiring housing assistance, allowing social programs to be targeted towards those who need help the most. While many instinctively want to reject this market-based assertion for housing policy, policymakers ignore market forces at their own peril, as market forces will assert themselves independent of whether or not one believes they exist.

Zoning restrictions that prevent the private market from delivering the maximum amount of housing units that they otherwise could in our cities must be seen for what they are, *the moral equivalent* of tearing down people's homes, and anti-development advocates must acknowledge this fact point blank if they believe that restricting more people from living in our neighborhoods is claiming some sort of moral high ground against displacement. So often at public meetings the sentiment is expressed in terms of "what are the developers giving back to this community?"

Well, first of all, they're providing places for people to live! Yes, they're building places for people to live, so that those new residents *don't* push existing residents out of *their* places to live. Some may focus on potential demolition impacts, and we should indeed be cognizant that large scale development may involve disruptions to the lives of renters in the existing units to be demolished, and, as a matter less of economic efficiency and more of moral imperative, that those renters receive some compensation. But for housing affordability writ large, as long as the increase in density over existing numbers of units is substantial, more development will ultimately make more poor people better off than it makes worse off (i.e. as long as we're not simply replacing, say, four older units with four nicer units at a one-for-one ratio). Second of all, new developments, and the corresponding residents, help to stabilize the city's fiscal position, which helps fund the social programs many want in our cities, including the programs that provide more affordable housing.

Zoning restrictions also have the effect of incentivizing additional sprawl, as development that cannot be accommodated through infill in existing neighborhoods will ultimately be shifted to other areas, often on the suburban fringe (or to other potentially less sustainable regions, for that matter). This outward redistribution of metropolitan growth leads to larger distances between origins and destinations, and thus higher vehicle miles traveled per capita, increased household transportation costs, degraded regional air quality, and poorer health outcomes. Additionally, it hits the public and private sector's finances due to the invariable need to provide extra infrastructure to serve more dispersed development patterns, adding to private sector, as well as local, state, and federal government capital and operating budgets (for example, more roads, school buses traveling further, more miles of utility lines, less efficient heating and cooling, increased health costs, etc.). As a double-whammy, it hampers the farebox recovery ratio of mass transportation systems by legally barring additional businesses and residents from locating in mass transit walksheds. Though many localities and their residents are concerned about the environment, and in particular climate change, restrictive zoning does more to undermine our climate change goals than just about any other major government policy, increasing energy use and greenhouse gas emissions per capita by putting origins and destination further apart and accessible only using energy-intensive modes.

There are those who want some fundamental change to private property rights, to throw over the table on our current housing system, or other goals to de-commodify housing or put it under something like collective public ownership (perhaps even abolishing private home ownership). Such solutions may or may not ultimately achieve the goals they intend to, but perhaps someday more substantial change will be politically viable (for better, or for worse). But if the argument is that we can't work to change the system we have in place right now to make it more just, and that we must wait for a “revolution” of sorts, consider the words of author Alan Mallach:

> *“I have little tolerance with the line of argument that holds that all efforts are in vain as long as the underlying economic or political system falls short of the ideal. Representative democracy and the capitalist economic system, for better or for worse, are the two conjoined frameworks that have defined the reality of American life for well over a century and are likely to do so for the next century as well, assuming Western civilization survives. Moreover, should they be replaced by anything fundamentally different, whatever that is will probably be much worse. Finally, although I share many people’s belief that many things about American society need fundamental change, including the racism that remains so resistant to change, I see radical change as being at best a distant prospect. I do not believe that we should forgo the opportunities that exist to change the lives of people and their communities in important ways, even while injustice and racism may continue to exist, in the interest of a far-off and most probably illusory better society. That posture is a luxury of the affluent that the poor cannot afford.”*

In response to this national crisis, many regions are exploring and implementing reforms to zoning laws. In some egregious cases, the repeated inability of local jurisdictions to make meaningful headway in allowing enough new housing units is leading states to implement and explore preemption of local jurisdictional zoning police powers to boost housing unit production. In Canada, much of the planning and zoning powers have been regionalized or done at the provincial level, to ensure parochial interests that attempt to exclude new residents from neighborhoods are less able to weaponize local zoning and degrade regional housing affordability. Even the United States federal government and presidential candidates have taken notice of this issue, along with several conservative think tanks who recently supported legalizing density and transit-oriented development (did we ever imagine Cato and Smart-Growth America on the same side of an issue? Housing crises make for interesting bedfellows). Other options include having at-large representatives in charge of land use decisions rather than district-based representatives. Examples of this include proportional representation-based elections, or ranked-choice voting for multi-member at-large seats, helping to ensure transportation investments and land use decisions are efficient and best for the city or region overall, while counteracting some of the challenges of fragmented and district-based representation.

American cities have come a long way since their freeway-induced fall from grace in the 1960s-1990s, and for some lucky cities the fundamental question has changed from how to attract growth to how to accommodate it. This is, at its core, a problem many metropolitan areas and central cities wish desperately to have, and this fact should not be lost on us. Many existential questions remain for dying rural areas on the Great Plains or Rust Belt cities that continue to suffer under the weight of deindustrialization, depopulation, and fragmented regional governance. There are not clear policy solutions to the problems in those areas. To the contrary, the major housing crises facing regions such as DC, San Francisco, and New York are at least partially artificial and self-inflicted by current policy decisions, and, more importantly, the policy solutions to these problems *actually exist*. Policymakers, planning staff, and the public at large must understand the moral imperative of increasing housing production substantially, even if this ultimately changes neighborhood character. Every part of our cities, rich and poor, has a role to play in accommodating growth, and more must be done to make sure high-opportunity neighborhoods share in that burden.

Furthermore, though the belief is in vogue, we must vigilantly reject the notion that market-rate housing supply is somehow antithetical to solving the housing affordability crisis. Preventing market-rate housing supply will not *prevent* gentrification or displacement, it will in fact *accelerate* gentrification and displacement. Some claim that we cannot "build our way to housing affordability," yet we also cannot simply "subsidize our way to housing affordability" nor can we "not build" our way there. There will simply never be enough tax dollars to deliver the sheer number of units needed to address this crisis, and inclusionary zoning programs will produce paltry numbers of units at best, creating a few lucky winners among the vast majority of working-class people left with the dire choices of staying or leaving, or having a place to live or not. Market rate development, and a substantial amount of it at that, is the only sustainable way to keep overall housing affordability in check over the long run.

We must, as policymakers, understand the difference between policies that people *feel* good about (often the policies that give a false sense of security that we are making meaningful progress on our goals), and those that *actually* work and bring us closer to our goals. Our hope is this letter has helped frame the crisis we face, as well as what policy solutions exist that can actually bring us closer to the places we all say we want to live in. While neighborhood character is an important consideration, we leave you with a quote from *Better Institutions* which sums up the cognitive dissonance we must face up to if we are to overcome this crisis and help the people we care about:

> *"We've been convinced that the built environment—not the people who inhabit it—is what makes a community; that neighborhood integrity is about the character of buildings, not that of our neighbors. This is not a liberal ideal. Rather than turn these people away, we need to recognize that new residents are just people like us, looking for a better life and new opportunities. Adding enough new homes so that they can find somewhere to live is a very small ask. We have to stop acting as though the subjective value of 'neighborhood character' (which has always been and will always be a moving target) is of equal importance to the hard economic realities of unaffordable housing, inequity of opportunity, and homelessness. The latter issues are clearly of greater importance, and if you're willing to sacrifice them at the altar of 'neighborhood character' then you need to take a moment and seriously question your commitment to progressive, inclusive values."*

Thank you for your time, we hope you found this interesting and that you'll share this, or the ideas contained within it, with anyone that you think may find it a worthwhile read. Remember, each and every one of us, even doing something small, can make a big difference. That change begins with you.