New Study: Inclusionary Zoning's Impact on Housing Production, Cost, Size

A University of Maryland Study

COLLEGE PARK, MD
March 4, 2008

A new University of Maryland study shows that policies aimed at increasing the stock of affordable housing can stimulate construction of multi-family housing, but may also push up the price and reduce the size of single family houses that are built within the cities that adopted the policy.

The study by the National Center for Smart Growth Research and Education and funded by the National Home Builders Association examined so-called "inclusionary zoning" policies implemented in California from 1998 to 2005. Inclusionary zoning generally requires home builders to incorporate a certain number of moderately priced housing units within new subdivisions as a means of assuring that housing will be available for people with lower incomes.

The report, entitled "Housing Market Impacts of Inclusionary Zoning," found that housing prices in California cities that adopted inclusionary zoning during the study period increased about 2-to-3 percent faster than cities that did not adopt such policies.

The study also concluded that cities with inclusionary housing programs experienced a significant and relatively large increase in the ratio of multifamily to single family housing production.

"These results are fully consistent with economic theory and demonstrate that inclusionary zoning policies do not come without cost," said economist Dr. Gerrit-Jan Knaap, executive director of the National Center for Smart Growth, and one of the study's authors.

In Maryland, several jurisdictions have enacted inclusionary zoning policies, most prominently in Montgomery County and most recently in the city of Baltimore.

Many states are experiencing shortages of so-called affordable or "workforce" housing. To address this problem, some local governments have imposed "inclusionary zoning" requirements. Advocates say such requirements not only help meet the need of providing a greater supply of affordable housing, but also provide ancillary benefits, such as diversifying school enrollment with children from families of different income levels. Others, however, say such requirements drive up the cost of housing, which is then shifted to market rate buyers.

In California, the study showed that cities with existing or new inclusionary zoning programs did not experience a significant reduction in the rate of single family housing starts, but they did experience a marginally significant increase in multifamily housing starts.

More specifically, the study found that in municipalities with inclusionary housing programs, the share of multifamily housing starts increased 7 percent. The reasons for this shift were attributed, in part, to the explosive housing markets in California throughout most of the 1990s.

"The imposition of inclusionary zoning requirements was not strong enough to slow the overall rate of housing production, but did cause a measurable shift from single family to multifamily housing production," the report concluded.

The study also revealed that the housing price effects of the inclusionary zoning policies were greater in higher priced housing markets than in lower priced ones. That is, housing that sold for less than $187,000 (in 1988 dollars) decreased by only 0.8 percent, while housing that sold for more than $187,000 increased by 5 percent.

"These findings suggest that housing producers did not in general respond to inclusionary requirements by slowing the rate of single family housing construction, but did pass the increase in production costs on to housing consumers... Further, housing producers were better able to pass on the increase in costs in higher priced housing markets than in lower priced housing markets," the report said.

Finally, the study found that the floor size of market rate houses in cities that adopted inclusionary zoning increased more slowly than in cities without such programs, and that most of the reductions in housing size occurred in houses that sold for less than $187,000.

"These findings suggest that inclusionary zoning programs caused housing producers to increase the price of more expensive homes in markets where residents were less sensitive to price, and to decrease the size of less expensive homes in markets where residents were more sensitive to price," said the report, written by Dr. Knaap, Antonio M. Bento, and Scott Lowe.

Dr. Knaap is an economist and Urban Studies and Planning professor at the University of Maryland; Dr. Bento, formerly with the Center for Smart Growth, is now associate professor with the Department of Applied Economics & Management at Cornell University; Lowe is assistant professor with the Department of Economics in the College of Business and Economics at Boise State University.

Maryland Examples

Although the study focused on inclusionary zoning policies in California, the Moderately Priced Dwelling Unit program in Montgomery County, Md., is believed to be the nation's first mandatory, inclusionary zoning law to offer density bonuses to builders who provide affordable housing. Generally, the Montgomery County program requires between 12.5 and 15 percent of the total number of units in every subdivision or high-rise with 20 or more units to be moderately priced. To offset this requirement, the Montgomery County law allows a density increase of up to 22 percent above the normal density permitted under existing zoning.

In June 2007, the city of Baltimore enacted an inclusionary zoning statute calling for 10 to 20 percent of new homes in developments of 30 or more units to be affordable to people within a specified range of incomes.

University of Maryland School of Architecture, Planning & Preservation
College Park, Maryland 20742