Precis of Smart Growth Report

This is a summary of *Housing Market Impacts of Inclusionary Zoning*, written by Gerrit-Jan Knapp, Antonio Bento and Scott Lowe for the National Center for Smart Growth Research and Education, and released in February 2008. It was prepared through funding provided by the National Association of Home Builders.

Introduction

The National Center for Smart Growth is associated with the University of Maryland. It was founded in 2000 to undertake independent, objective and interdisciplinary research and leadership training on smart growth and related land-use issues.

This report presents a rigorous statistical analysis of the effects of inclusionary zoning in California over the period of 1988-2005. It examines specifically the effects on single-family housing prices, single- and multi-family housing starts, and single-family house sizes, based upon data from all 369 municipalities of the state.

Effects

The report notes that the study did find that inclusionary zoning programs have had "measurable" effects on the housing markets in jurisdictions where adopted. What it does not say is that these effects do not seem to be consequential or even particularly adverse.

Housing Starts

The study found that inclusionary zoning had "no net effect" or "a small and insignificant effect'' on total housing starts over the study period. More specifically, overall housing starts were up 0.15% in municipalities with inclusionary zoning, while single-family starts were down 0.19% and multi-family starts up 0.36%.

The main effect of inclusionary zoning was not on the volume of housing, but on the type of housing built. It caused a "marginally significant" shift from single-family to multi-family production. The share of single-family starts in municipalities with inclusionary zoning dropped by nearly 7%, while the share of multi-family starts increased an almost matching number.

The magnitude of this shift was affected by the stringency of the requirements. In those programs with higher set-asides or lower project thresholds, there was a somewhat greater shift from single-family to multi-family.

Housing Prices

The programs had the effect of raising new housing prices by approximately 2.2%. This increase was over the entire 17-year study period, and so amounted to about 0.13% per year on average.

The effects were greater on higher-priced homes. The price of housing selling for less than $187,000 (in 1988 dollars) dropped by about 0.8%, while the price of higher-price housing rose by about 5.0%. The latter amounted to an increase of about 0.29% per year on average.

These figures need to be put into perspective. According to tabulated data provided in this report, over the same 1988-2005 period, the mean house price in California rose from $168,700 to $354,700, or by more than 110%. The increase of 2.2% amounted to a price increase of $3700, which can be compared with the total increase of $186,000.

House Sizes

These programs had the effect of reducing the growth in single-family house sizes by approximately 48 ft^2. In other words, the single-family homes in both sets of municipalities grew over this period, but those in municipalities with inclusionary zoning grew somewhat less.

The effect was greater in lower-price single-family homes. Houses selling for less than $187,000 were approximately 33 ft^2 less large.

To put these figures into perspective, the mean floorspace for all new units in the state increased from 1740 ft^2 to 2370 ft^2 over this period, or by 630 ft^2. So, a loss of 48 ft^2 means that the housing units were about 1.6% less large after 17 years in municipalities with inclusionary zoning.

Overview

These findings indicate the housing producers did not in general respond to inclusionary requirements by slowing the rate of overall housing construction. Although somewhat less single-family housing was built, that was compensated for by a corresponding increase in multi-family housing.

The findings indicate that the housing producers were able to pass on some small part of the increased production costs to single-family homes in two ways: by very modestly raising the price of more expensive homes, and by very marginally moderating the growth in the size of less expensive homes. Neither of those effects can be considered to be significant.

The worst that can be said is that house prices were increased by 2.2% overall – or by 5% for single-family homes – over 17 years in municipalities with inclusionary zoning. But these figures do not seem to be consequential when those prices increased by 110%.

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