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Removing Barriers to Accessing
High-Productivity Places

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Removing Barriers to Accessing High-Productivity Places

Economic outcomes vary widely across different regions of the United States. People in some parts of the country live significantly healthier, more-prosperous, and better-educated lives than those in other parts. One important piece of this story is the wide variation in labor market opportunities across places. Unfortunately, it has become more difficult for those in disadvantaged places to live and work in many of these prosperous areas due to high housing costs driven by tight land-use restrictions that have limited housing growth in the high-productivity areas. Without sufficient housing supply, prices rise and high-quality jobs in thriving places become inaccessible for those of limited means.

In a new Hamilton Project proposal, Daniel Shoag assesses the effects of these restrictions by building on his previous research and the larger research literature to propose actions that localities, states, and the federal government could take to improve access to high-productivity places. Shoag focuses on policy reforms that would increase the supply of housing, arguing that supply restrictions are the chief cause of rising costs. He calls for local experimentation with loosened land-use policy, state establishment of by-right development or intermediate steps toward this goal, and the federal government's use of incentives to encourage states to remove barriers.

The Challenge

Struggling Places Are No Longer Catching Up

Place has historically mattered for the economic opportunity available to individuals, but for most of the last century and a half, socioeconomic

gaps between places were shrinking. In the period from the Civil War to the 1980s, state average incomes and education levels steadily converged. Moreover, population growth was highest in the highest-income parts of the country; even if places were unequal, Americans were moving to places offering greater opportunity.

Shoag shows that all of these patterns have weakened considerably in the last 30 years. Incomes and human capital levels have ceased converging since 1980, and internal U.S. migration has decreased. This decline cannot be explained by changing demographics alone, and geographic mobility is also less responsive to labor demand conditions than it was in the past. Low-income places are no longer catching up to high-income ones, and people are no longer moving on net from low-income places to high-income ones. The traditional ways in which the American economy has ameliorated geographic disparities have broken down.

Land-use Restrictions Limit Access to Opportunity

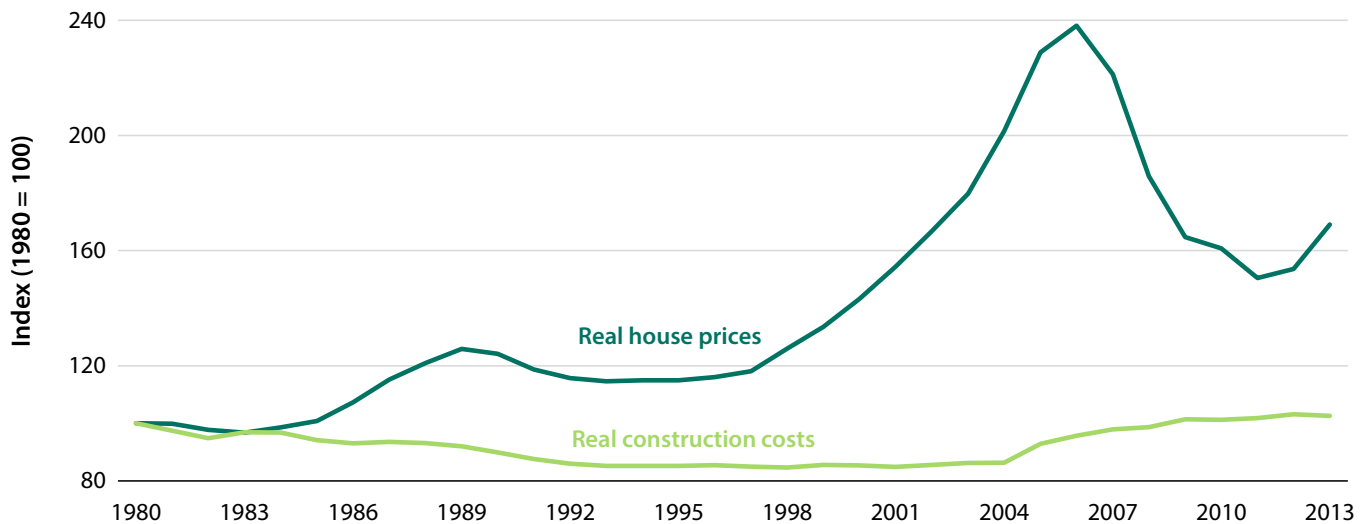
Shoag argues that this breakdown is driven by changes in the housing market. Though more-productive places were always more expensive than less-productive places, they have become increasingly expensive relative to offered wages. This change in housing markets has made it disproportionately difficult for low-skilled workers to live and work in productive places. By contrast, workers in higher-paid professions are still able to move from low-wage to high-wage places despite the increase in housing prices.

The slow growth in housing supply in productive places has also generated other types of inequality. For example, restrictive zoning rules have been linked to increased racial segregation. The author also describes new research that finds that increasing gaps in housing wealth are a source of both rising wealth inequality and the increasing capital share of income. Distorted by excessive land-use restrictions, housing markets are now concentrating more wealth in a smaller share of the population.

Rapidly rising housing prices do not reflect rising construction costs. Instead, the author explains that increases in prices (shown in figure 1) are linked to increasing regulatory restrictions that block development.

FIGURE 1.

Real Construction Costs and House Prices, 1980–2013



Source: Gyourko and Molloy 2015.

Note: Both series are indexed to their 1980 values.

Roadmap

- Local governments will examine case studies of policy reforms that have been successful in growing the stock of housing, especially in places with high economic activity.
- State governments will implement by-right development policies, which would entail that projects complying with existing standards would be approved administratively, without a discretionary review process or public hearing.
- The federal government will utilize the Affirmatively Further Fair Housing rule to allocate existing funds from the Department of Housing and Urban Development as a tool to promote better land-use policy at the state and local levels. Federal policymakers will also include population growth requirements to encourage local cooperation.
- To complement the supply interventions proposed here, policymakers will incorporate demand-oriented solutions as well, including voucher expansion and the court-ordered Small Area Fair Market Rent program.

Places with rising regulation saw increased capitalization of incomes into housing prices (i.e., sharply higher housing prices when incomes are higher), less migration to high-income places, and slower rates of income convergence across places.

Housing in the highest-income parts of the country is growing more expensive, but these areas are losing population relative to the rest of the country. The author applies basic economic theory to these trends, noting that when price is going up, but quantity is falling or not increasing, the explanation must be a restriction of supply or a failure of supply to respond to increasing demand. He therefore focuses on policies that would increase the supply of housing.

A New Approach

Excessively burdensome land-use restrictions and inaccessible housing markets affect many regions, leading the author to propose a suite of policy changes that can be implemented at the local, state, and federal levels.

Reforms for Local Government

Shoag describes several case studies of cities' efforts to increase their housing supply and thereby improve access. These efforts have taken a number of different forms, suggesting an interesting variety of potential strategies.

Tokyo: Build Up

Contemporary Tokyo is flourishing and housing price growth has fallen despite steady population growth. The author sees three main explanations for Tokyo's ample housing supply and accommodation of new residents. First, the city issues many housing permits. Second, despite some restrictions in residential areas, zoning laws are very lax in mixed-use areas, leading to the building of many apartment towers in

the city. Third, this approach extends to how land is used, and neighbors have little legal recourse against construction that they oppose.

Montreal: Mid-Level Zoning

As Shoag explains, the main way Montreal supports housing growth is through zoning that encourages the building of low- and mid-rise apartments, instead of stand-alone single-family houses or towering skyscrapers. According to Canada's 2016 census, 78 percent of Montreal's 779,805 residences—as compared with 35 percent for the nation as a whole—were apartments in a duplex or other building with fewer than five stories, row houses, semidetached houses, or other single-attached houses. This mid-level zoning strategy is depicted in figure 2.

A specific instance of such mid-density zoning is Montreal's Grow Homes plan, which was piloted in the 1990s. This entailed construction of narrow, prefabricated row houses that are sold to homeowners in an unfinished state. Homeowners finish and add to their houses as they save up the money to buy them. The Grow Home model has been effective in keeping prices down.

Raleigh: Simplifying the Administrative Process

The population of Raleigh has grown by roughly 60 percent since 2000, and 17 percent since 2010. This puts its population growth on par with Charleston, Houston, and Orlando. Despite this rapid growth, house prices have grown relatively slowly. From 2010 to 2017, average house prices in Raleigh rose just 34 percent, as compared with an average of 54 percent in those other fast-growing locations.

The author attributes some of this slower price growth to the major rezoning accomplished in 2013 via Raleigh's Unified Development Ordinance (UDO). Notably, the plan created several mixed-use zoning districts without any density limits. Although these areas do have to pass review of minimum frontages and maximum heights, the introduction of higher-density, mixed-use, by-right zoning was novel and represented

BOX 1.

“Yes In My Backyard”—YIMBY

Although the forms of land-use restrictions are varied, the underlying political motivation is often thought to be a desire to limit change in a neighborhood, and perhaps to protect individual housing investments. However, the recent growth of a grassroots, pro-development movement has altered the picture and provides useful insights for policy. This movement, called “YIMBY”—an acronym for “Yes In My Back Yard”—has pushed back against local opposition to development (“NIMBY,” or “Not In My Back Yard”).

The author views YIMBY as important because even a small group of well-trained activists can affect local development policymaking, particularly when developers and environmental groups also intervene to support increased housing supply. The young YIMBY movement has contributed to the introduction of bills in California and Oregon to require cities to streamline permitting or otherwise relax restrictions, and to permit accessory dwelling units. Similar reform efforts are under way in Boston, Boulder, and Austin. The author claims that the movement's success stems from its emphasis on ensuring that there is systemic reform of land-use rules, often at higher levels of government than have traditionally set policy.

a break from the more restrictive traditional system. Moreover, the UDO simplified Raleigh’s administrative process, eliminating triggers that required reviews by both the city council and planning commission. These changes have allowed Raleigh to experience strong population growth without exploding house prices.

Vienna: Public Housing

Although public housing has often been characterized by problems, the author contends that it has sometimes been used with great success. In Vienna, Austria, nearly three in five residents live in houses owned, built, or managed by the government. In contrast to the United States, Vienna allows nonpoor people to apply for public housing, and roughly 80 percent of the population is eligible. Moreover, rents for public housing are tied to a property’s maintenance costs—not just the residents’ income. This ensures that properties do not deteriorate, as they often do in the United States. As a result of this, Vienna initiates more construction per resident than its peer cities in Europe, and it has one of the lower ratios of house price to income.

Pittsburgh: Land Tax

For years, Pittsburgh taxed land values at a significantly higher rate than property values. This encouraged development—whereas traditional property taxes rise when land is developed, land taxes do not. Shoag describes research that credits this tax with preventing Pittsburgh from declining like its Rust Belt peer cities. More generally, land taxes have been found to promote more-intense development. Still, after a sharp rise in appraised land values, Pittsburgh abandoned this unique institution in 2001.

Learn More about This Proposal

This policy brief is based on the Hamilton Project policy paper, “Removing Barriers to Accessing High-Productivity Places” which was authored by

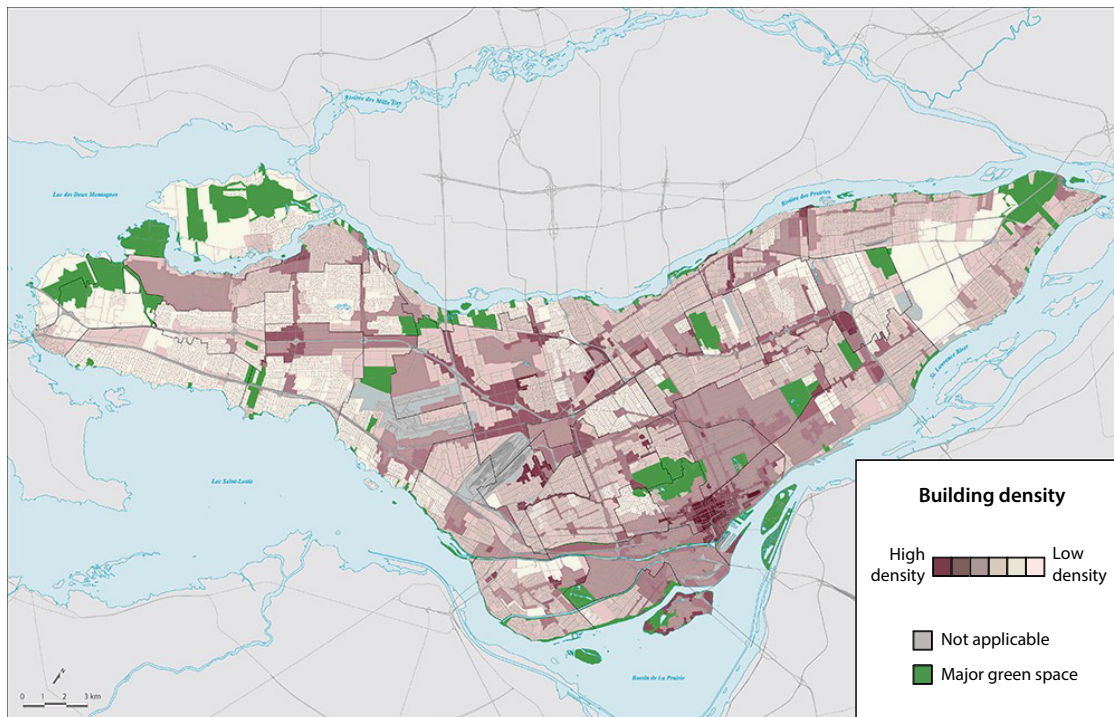
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Reforms for the Federal Government

The lack of affordable housing in high-wage places may be a national problem, but the regulations in need of reform exist at the state and local levels. Shoag concludes that the most practical way for the federal government to promote change is to provide incentives for lower-level governments to reform their policies.

The author discusses recent federal legislative proposals as an example of how the federal government can structure these incentives. One example calls for direct federal investment in the construction and rehabilitation of affordable housing. It also calls for grants that would pay for infrastructure, parks, roads, and schools in communities that liberalize their housing policies. Among the policies that would satisfy this requirement are streamlined regulatory processes, permission to build accessory dwelling units, development tax incentives, the

FIGURE 2.
Building Density in Montreal, 2004



Source: City of Montreal 2004.

Note: This map shows the building density for the entire city of Montreal in a 17-colour scheme that reflects the various density parameters. Darker areas are more dense.

BOX 2.

Enhancing Affordability and Enhancing Housing Supply Are Complementary

Shoag's proposal is designed to address land-use restrictions in the housing market, which limit the supply of housing. However, certain demand-oriented policies are complementary with his proposal.

For example, providing housing vouchers to low-income families has the downside that it tends to increase rents and thereby benefit landlords. However, this is less likely when the housing supply is more elastic (i.e., when land-use restrictions are less onerous), meaning that more of the benefits from vouchers will accrue to tenants rather than property owners.

Vouchers play a necessary role in enhancing housing access. According to the author, it is an unfortunate reality that it is often easiest to surmount political opposition to development in low-income neighborhoods and neighborhoods populated by minority communities. Moreover, the gains from easing land-use restrictions sometimes accrue to white and wealthier people. It is therefore important that efforts to loosen development restrictions be advanced alongside policies that make housing more affordable for lower-income or minority communities.

One such policy is to more broadly implement the court-ordered Small Area Fair Market Rent program, which switches the calculation of fair market rent value—and therefore the value of vouchers—from the metropolitan area to the zip code (a smaller geographic area). Allowing vouchers to vary at a more local level should offset some displacement pressure arising from rising rents, to the extent that this occurs in some neighborhoods.

elimination of minimum parking requirements, the elimination of minimum lot sizes, and permission to build multifamily units. By providing incentives to supply more roads, parks, and schools, the proposal also addresses the potential concern over crowding of public infrastructure and services.

Shoag proposes that population growth requirements be incorporated alongside the list of development-promoting reforms that communities must undertake to win the reform grants, which would minimize the risk that local governments find ways to circumvent the specific reforms. The author also proposes that the federal government use the U.S. Department of Housing and Urban Development's Affirmatively Further Fair Housing rule—which addresses residential segregation and barriers to housing opportunity based on protected characteristics—to promote better land-use policy.

The author also proposes that the federal government reduce tax subsidies for homeownership, including the mortgage interest deduction, the capital gains exemption, the state and local tax deduction, and other provisions. Overall, the tax code provides an enormous spur for individual ownership, at a significant cost. These provisions confer disproportionate benefits on high-income households and places with tight housing supply constraints. The revenues raised by scaling back these tax preferences could instead be used to reward local governments that permit more housing.

Finally, Shoag describes how federal conservation easements—a permanent right given to a land trust or government agency that limits the ways in which a property owner can use their land—and environmental review can limit housing supply. In particular, he proposes that federal environmental review incorporate comprehensive assessments of pollution effects; for example, allowing more density in San Francisco would increase carbon emissions there but lower them overall, given that per capita carbon emissions are lower in San Francisco than in most other places.

Reforms for State Governments

The author proposes that state governments establish thoughtful by-right development policies. This means that projects complying with existing standards would be approved administratively, without a discretionary review process or public hearing. One example is California's SB 35, enacted in 2017, which made important progress on this front by requiring cities that fail to meet their housing needs assessment (nearly every city in California) to create an approval process without a public hearing and with well-defined time limits for projects that meet affordable unit creation thresholds.

Transportation investments are another key policy lever that states can use. By bringing more towns within commuting distance, cities can effectively increase supply without directly changing zoning rules. Although transportation expansions can be expensive, they are likely to be an important part of the solution.

Benefits and Costs

Relaxing excessive land-use restrictions would improve access to high-productivity places—and high-productivity jobs—for low- and middle-income workers. In addition to benefiting individual workers, Shoag argues that this would increase overall economic growth by redirecting migration to more-productive places, thereby ameliorating place-based gaps in worker outcomes. By diminishing variation in housing wealth, it would also reduce wealth inequality. And at the most fundamental level, the author's proposal would lower the cost of obtaining housing.

The proposal would have costs for particular groups. Landowners in sought-after locations with restrictive land-use rules would see slower price growth. Both homeowners and renters could experience increased congestion of local public goods (e.g., parks and schools).

Conclusion

Housing markets in the country's most productive regions have become increasingly inaccessible to low-income citizens. Finding a solution that provides adequate access to these engines of opportunity will be challenging, but there are encouraging signs. The YIMBY movement, though young, shows considerable promise. Success stories abound in communities the world over, showing how the problem of insufficient housing supply can be addressed in a variety of ways. And given the many tools it has at its disposal, the federal government can use a combination of carrots and sticks to help promote best practices across states.

Questions and Concerns

1. Leaving aside land-use restrictions, is it even physically possible to add units in productive places?

While New York City is the densest metropolitan area in the United States, other high-productivity places are much less concentrated. San Francisco and Los Angeles have a population-weighted density less than half that of New York. Boston and Philadelphia have very similar population-weighted densities, despite the median monthly housing cost being 36 percent higher in Boston. Las Vegas is denser than Washington, DC, Laredo is denser than Denver, and Salt Lake City is denser than Portland. The fact that many metropolitan areas are far less dense than New York City, and are instead comparably dense with less-restricted and growing metropolitan areas, demonstrates that those places are not up against a physical or technological limit.

2. Would relaxing land-use restrictions—and increasing migration to higher-wage places—harm workers who remain in lower-wage places that lose population?

This is a possibility, but it is unlikely. The issue discussed in this brief is how to remove barriers to productive places. Though many Americans are unable to move to the country's most productive places, a substantial number of people do still move. The crux of this proposal is to allow this migration flow to be redirected to high-productivity places, not just places with more-lenient housing regulation. Additionally, the research on the labor market impacts of reduced labor supply in places experiencing migration outflows is mixed. While some research shows that some regions may lose important agglomeration economies, other research suggests that labor scarcity may in fact raise wages in these locations.

While the fate of lower-wage places is an area of concern, targeting this problem by restricting access to high-productivity places is not the answer.

Highlights

In this paper, Daniel Shoag of Harvard Kennedy School and Case Western Reserve University discusses the inefficiencies of current housing policies—specifically those related to housing supply—and their effects on economic growth and mobility. High regional inequality is driven in part by local housing rules that prevent low- and middle-income workers from accessing high-productivity places. To remove these barriers, the author outlines local, state, and federal policy initiatives that can boost the stock of housing in booming parts of the country.

The Proposals

Reform local housing supply restrictions to allow for an expanded stock of housing. The author offers several case studies of localities—both domestic and international—that have rolled back inefficient restrictions and thereby enhanced access to high-productivity places. Each of these cases shows how thoughtful policy interventions can increase the stock of housing and expand access for potential entrants.

Support better housing policy with state and federal incentives. The author proposes that states establish by-right development policies or other policies that lower barriers to housing supply. Federal policymakers should provide incentives to encourage local innovation in expanding access to housing.

Benefits

Restrictive housing policies reinforce regional inequality by keeping low- and middle-income workers out of high-productivity areas. By removing these barriers, Shoag's proposed policies would open up the opportunity of these economic hubs to more Americans, enhancing economic growth and allowing it to be shared more widely.



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