Taking a balanced approach to new development: the importance of creating and preserving dedicated affordable homes as well as allowing for new housing for all income levels

A number of cities around the country have recently released local housing strategies to address their growing affordability challenges. Many of these plans lay out ambitious efforts to boost the supply of subsidized housing and other forms of dedicated affordable housing but are silent when it comes to increasing the overall supply of housing. Meanwhile, new development appears to be encountering increasing resistance in many cities, towns, and counties as community members, joined in some cases by affordable housing advocates, argue for policies that restrict new development.

Preserving and expanding the supply of dedicated affordable housing is critical, but research evidence shows that allowing the broader housing market to respond to increased demand with new construction is also essential to constrain housing prices in cities, towns, and counties facing rising rents and prices. This brief sets out to review that evidence and critically examine the arguments made about how increases in the overall supply of housing affect housing prices, rents, and economic growth. It also underscores what a robust supply of market rate housing will not accomplish. The paper concludes that cities, towns, and counties should adopt a balanced approach that both supports the creation and preservation of dedicated affordable housing and removes barriers to new development for all income levels.

Questioning the value of new housing supply
In the face of rising prices and rents, affordable housing stakeholders have successfully advocated in a growing number of cities, towns, and counties for efforts to increase the supply of dedicated affordable housing. At the same time, some have opposed new development proposals that are not targeted to the lowest income households, questioning the premise that increasing the supply of market rate housing will result in housing that is more affordable. They make several arguments:

- Because the supply of land is so constrained, any land used for market rate housing is land that cannot be used for affordable housing;
• Increasing the supply of market rate housing will do nothing to alleviate price and rent pressures in more moderately priced segments of the market; 
• Building more housing will only attract more residents to the city; and 
• New housing only makes neighborhoods more attractive, increasing prices and rents

What does the evidence tell us? 
Despite these arguments, several studies show that areas with stricter local land use regulations have less new construction and higher prices. Land use regulations restrict supply, and as a result cause higher housing prices as developers cannot easily build more homes to meet increases in demand. One study uses longitudinal data from localities in Massachusetts and finds that increases in minimum lot sizes are followed by significant increases in prices. Another looks at localities in Florida and finds that regulations significantly increase the price of single-family homes. And one national study shows that increases in demand for workers in metropolitan areas with more restrictive housing supply lead to less residential construction and larger increases in housing prices. To be clear, relaxing supply restrictions may not necessarily reduce prices in a very localized area, but it will help to moderate price and rent appreciation in the broader market.

This evidence suggests that efforts to reduce barriers to new supply can play an important role in expanding housing affordability and that the arguments against such efforts may be missing some key considerations. Let’s take each argument in turn.

Argument 1: Inherently limited supply of land. 
One argument made in opposition to market-rate development is that the supply of land is inherently constrained, so there is a one-for-one trade-off between developing market rate housing and developing affordable housing. To be sure, the supply of land is limited, especially in coastal and high cost cities, towns, and counties. But there is undeveloped land, and there is even more that is underdeveloped. Many cities, towns, and counties, for example, have under-utilized manufacturing zones or parking lots. This land can be rezoned to allow for more housing. Land zoned for residential uses, especially in areas in which the housing is reaching an age and condition that make its demolition cost-effective, could be upzoned to accommodate more housing. Finally, not allowing land to be used for market-rate housing would not necessarily result in it being used for affordable housing; land can be used for purposes other than housing.

Argument 2: New homes will not address my affordability challenges
A second argument raised is that increasing the supply of new market rate housing will
do nothing to alleviate price and rent pressures in more moderately priced segments of the market. The notion is that all the new housing that is built is luxury housing, and building more luxury homes will only reduce prices and rents in a competitive luxury submarket. Over time, these units may age and “filter” down to lower-priced segments, but it will take many decades for them to do so.

There is again some validity to this argument. It is surely true that when first produced, housing tends to supply the medium- or higher-price segments of a housing market in part because housing is so expensive to build. It is also true that homes depreciate in value slowly, and the direct filtering of new homes down to lower priced submarkets can take decades. But the argument misses the point that housing submarkets are inter-related, and additions to the housing stock in one submarket can fairly quickly affect prices and rents in other submarkets by alleviating demand that would otherwise be diverted to those other submarkets. Imagine a city, town, or county that allows no new construction. As demand increases and prices rise for high-end housing, homeseekers who would have otherwise searched in that submarket will be priced out. Some may leave the jurisdiction altogether, but others will turn to somewhat less expensive housing in the same city, increasing demand for housing in the next submarket. In this way, the failure of supply to respond to increased demand at the higher end will ripple down through other lower-cost submarkets and increase their prices.

What is more, these ripple effects may be compounded by owners’ decisions to upgrade their existing buildings. As prices increase in the higher end of the market, owners will find it more attractive to maintain or upgrade housing units that would otherwise have aged out of this submarket. That has the effect of slowing the movement of units to less expensive submarkets through downward filtering. Indeed, if price increases are large and persistent enough, upgrading of existing units (and perhaps entire neighborhoods) will occur in other submarkets, further decreasing supply in less-expensive submarkets.

**Argument 3: If you build it, they will come**

A third argument is that building more housing will only attract more residents to the city, town, or county, just as building more highways attracts more drivers. There is again some truth here. The lower prices and rents resulting from more building may encourage more residents to stay, attract more outsiders to move in, and encourage people to move out of large households and form their own, smaller households.

But moving homes is not like driving a few extra miles. Research shows that people cannot move all that easily, and they do not necessarily view different cities, towns, and counties as substitutes for one another. Significant constraints on the ability and
willingness of households to move to new neighborhoods, jurisdictions, and housing markets limit the number of new people who will move into an area after new construction occurs. Indeed, residential mobility rates in the U.S. have fallen sharply over the last few decades.

**Argument 4: New housing will increase rents in my neighborhood**

A final argument commonly raised in opposition to market-rate development is that new housing will make a neighborhood more attractive, increasing the prices and rents of nearby properties, even as it may help to alleviate increases in prices citywide. In other words, new housing will not only not reduce prices, it will actually increase them, and potentially heighten displacement risk, at least in the local neighborhood. This is a plausible assertion, and there is evidence that improvements to blighted housing can, in some circumstances, increase surrounding property values, even when that improved housing is subsidized, low-income housing. Even when housing does not replace blight, it could still draw people to a neighborhood and put upward pressure on rents by adding an attractive new building, bringing new retail amenities, and/or signaling that an area is ripe for development.

Even if the creation of new housing may invite some new demand, however, it will also add to the supply, helping to absorb demand and dampen pressure on prices. Without the new supply, the people who want to move to the neighborhood will bid up prices and rents of existing homes. On net, then, it is not clear what the localized effects of new construction will be, and there is little empirical work examining this question. One study found that additional market rate construction was linked to lower displacement rates. By adopting policies to protect existing residents from unforced moves, and working to expand the supply of dedicated affordable housing in these neighborhoods, cities, towns, and counties can further mitigate the potential for adverse localized effects.

In short, while there is good reason to believe (and considerable empirical evidence) that the construction of new homes will moderate price and rent increases citywide, neither theory nor empirical evidence provides clear guidance about how new construction will affect the prices and rents of immediately surrounding homes.

**Supply restrictions come with other costs**

Supply restrictions potentially generate costs beyond affordability as well. For one thing, they may contribute to longer commutes and environmental costs, if people end up having to live further away from their jobs but in the same metropolitan area. In addition, research shows an association between land use restrictions and residential
segregation, as restrictions can block lower-income households from moving into higher income communities. Research also suggests that housing supply constraints impede across-city mobility and thereby exacerbate economic differences between metropolitan areas and states. Finally, supply restrictions may reduce overall national economic growth, as they make it more difficult for workers to move to cities, towns, and counties with more productive businesses. One economic study estimates that if workers and capital had been able to move freely between 1964 and 2009 to respond to higher wages, national output would have been 10 percent higher in 2009.

The need for a balanced approach to increasing housing affordability

The above arguments do not imply that local officials should focus exclusively on relaxing regulations and facilitating the construction of market-rate housing. Instead, they argue for a balanced housing strategy that focuses both on creating and preserving dedicated affordable housing and removing barriers to the development of market-rate housing. Building more market rate housing will not solve the deep affordability challenges faced by low-income households. It cannot address the fundamental challenge that the cost of just maintaining and operating decent-quality housing outstrips the ability of many households to pay. Further, there are physical limits to how much housing supply can expand in many places. Housing subsidies or dedicated affordable units are still needed to ensure that high-cost cities, towns, and counties can remain economically diverse. However, by moderating overall rents, efforts to reduce barriers to new market-rate construction can help to reduce the gap between the rents of available homes in a jurisdiction and what low-income households can afford to pay, allowing those subsidies to stretch considerably further. These efforts can also reduce the costs of producing dedicated affordable housing.

Significantly, not all the supply needs to be added in a specific city, town, county, or submarket. Housing markets are regional; and localities in a region should work together to allow for new construction of both market-rate and dedicated affordable homes, together with transportation improvements that enable households to traverse the region more easily.

The key is to ensure that efforts to create and support dedicated affordable housing for low- and moderate-income households be accompanied by efforts across the region to make it easier to build housing affordable to all income levels. Rather than substitutes, these policies should be seen as essential complements in a balanced housing strategy.

1. In addition to the need for government action to create and preserve dedicated affordable housing, some level of regulation is needed to protect health and safety,
preserve environmental resources and ensure development does not outpace
needed infrastructure improvements.