



POLICY BRIEF UPDATE: FEBRUARY 2010

The Effects of Inclusionary Zoning on Local Housing Markets: Lessons from the San Francisco, Washington DC and Suburban Boston Areas

In March 2008, NYU's Furman Center for Real Estate and Urban Policy and the Center for Housing Policy released a policy brief summarizing our research on the effects of Inclusionary Zoning (IZ) policies. *The Effects of Inclusionary Zoning on Local Housing Markets: Lessons from the San Francisco, Washington DC and Suburban Boston Areas* set out to answer three questions: 1) What kinds of jurisdictions have adopted IZ?; 2) How much affordable housing has been produced in different IZ programs, and what factors have influenced production levels?; and 3) What effects has IZ had on the price and production of market-rate housing?

Since the brief was published, the Furman Center has continued its research on IZ policies. We have completed comparative research exploring the different structures of IZ policies, published in the fall 2009 issue of the *Journal of the American Planning Association*. We also have expanded our research on the impacts of IZ on local housing markets, in a paper accepted for publication in *Urban Studies*. As a result, we have gained a more nuanced understanding of what effects IZ has on the price and production of market-rate housing.

The most significant improvement to our research has been to test whether the impacts of IZ on housing prices and permits vary depending on regional housing market conditions. In our original research, we measured the average annual impact of IZ, without regard to whether the region was experiencing an up- or down-market. Specifically, for the San Francisco market, we looked at impacts between 1988 and 2006; in suburban Boston we looked at impacts between 1987 and 2006. Looking at average annual impacts over these time periods, we found



no evidence that IZ impacted either the prices or production of single-family houses in the San Francisco area. In suburban Boston, we found that IZ resulted in small decreases in production and slight increases in the prices of single-family houses.

However, there are a number of reasons to suspect that IZ programs might have different effects when regional markets are strong or weak. In up-markets, developers may be more able to pass along increased costs to consumers than in down-markets. In addition, jurisdictions' enforcement and implementation of programs may vary depending on the market context. To test these theories, we identify distinct periods of house price appreciation in each regional market. Specifically, using housing price and permits data for the San Francisco area, we identify an up-market from 1982 to 1988, a down-market from 1989 to 1994, and an up-market from 1995 to 2006. Using housing price data for the suburban Boston area, we identify a down-market from 1987 to 1994, an up-market from 1995 to 2005, and another down-market from 2006 to 2008.

Evaluating impacts during these different markets, we find that the impact of IZ varies depending on the regional housing market and varies across the two regions. In the suburban Boston area, we find that IZ programs appear to modestly constrain housing production and increase housing prices during periods of rising housing prices, but have no impact during declining housing markets. In San Francisco, IZ programs seem to intensify the effect of regional price fluctuations: when regional housing prices are declining, IZ programs are associated with a small decrease in local housing prices, but when regional housing prices are

appreciating, IZ programs are associated with a small increase in local housing prices. We find that IZ has no impact on housing production in San Francisco in either up- or down-markets. Our methodology does not allow us to determine the mechanism by which IZ impacts housing prices and production, or to distinguish between multiple possible explanations; this would be a useful area for future research.

As we discuss in the original policy brief and in our subsequent research, when interpreting these results, it is important to remember that IZ is only one of many government policies (and a fairly recent one) that is likely to affect housing production and prices. The marginal effect of IZ is unlikely to be very large, compared to the cumulative effect of all regulations. This may be particularly true in these regions we look at, as they tend to have relatively extensive land use regulations. Second, the effects of IZ and other types of regulations may be fairly small compared to the market determinants of supply and demand, such as changes in population size, income, or costs of labor and building materials. Finally, IZ policies vary widely, both within regions and across regions in ways that are likely to affect the results of our analysis. Not all IZ ordinances will have the same impacts, highlighting the importance of careful attention to program design.

These cautions notwithstanding, our finding that fluctuations in the regional housing market may change the impact of IZ on local housing markets is an important finding, and one that jurisdictions should consider as they seek to develop comprehensive, long-lasting plans that will produce affordable housing efficiently regardless of market climate.

The original policy brief, *The Effects of Inclusionary Zoning on Local Housing Markets: Lessons from San Francisco, Washington DC, and Suburban Boston Areas*, can be found at http://furmancenter.org/files/publications/IZPolicyBrief_LowRes.pdf or http://www.nhc.org/pdf/pub_chp_iz_briefo8.pdf.