

The Exclusionary Effects of Inclusionary Zoning: Economic Theory and Empirical Research

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Executive Summary

Many cities with high housing costs have adopted “inclusionary zoning” (IZ) ordinances that either incentivize or force developers of large housing projects to rent a portion of the units for below-market rates. A priori economic reasoning suggests that such policies reduce housing supply and make market-rate housing more expensive and lower-quality. Empirical studies focusing mostly on suburban regions partially bear out such worries: though the evidence is conflicted, many studies show that IZ in such areas has noticeable distorting effects on the housing market. Several case studies of large cities that have adopted IZ programs, furthermore, suggest that at least certain kinds of policies in these programs can cause dramatic reductions in housing construction. And IZ programs consistently produce too few units to be more than a minor part of housing affordability programs. This report concludes by suggesting ways that IZ programs—if unavoidable—can be designed to mitigate harmful market distortions.

Introduction

Many cities in the U.S. have adopted “inclusionary zoning” (IZ) policies to fight housing price crises. IZ either requires or encourages developers to commit to renting or selling a portion of their new housing units at rates that are “affordable” to households with low or moderate incomes—with affordability usually meaning, in practice, rents far below market rate—for periods that can last decades or even indefinitely. Below-market units created through IZ are usually offered to tenants through existing government programs for finding subsidized housing.

Fairfax County, Virginia, implemented the first IZ program in 1971;¹ today, there are more than 800 cities with them.² The particulars vary. Some simply mandate a fraction of below-market-rate units in new developments. New York City’s Mandatory Inclusionary Housing program is of this sort: it applies to all buildings with more than 10 units for which a developer requests

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a zoning change—something that the restrictiveness of current zoning makes de rigueur for substantial projects—or in neighborhoods that have been generally rezoned for higher density since the program began.³

Other programs are at least ostensibly voluntary—promising developers financial benefits such as tax relief or “density bonuses” that allow for larger projects than the base zoning code, in exchange for providing below-market units. But “voluntary” IZ can be de facto mandatory if the baseline zoning and regulatory environments are so onerous as to make new construction impossible without IZ benefits. Finally, some cities, such as San Francisco, allow for developers to contribute to an affordable-housing fund instead of satisfying IZ requirements.⁴

IZ mandates or incentives can seem ideal to affordable-housing advocates and local politicians. They do not directly increase municipal budgets, and—at least ostensibly—they can promote goals such as economic integration. But the logic of IZ becomes questionable upon closer inspection. Not only do IZ programs typically produce little affordable housing—one report estimates that the mean program creates only 27 units of affordable housing each year⁵—but economic theory and much empirical evidence suggest that they can distort housing markets, slowing down construction and driving up prices. It’s possible that even for a city’s lowest-income residents, the harmful effects of reduced construction could outweigh the direct effect of providing low-rent apartments. Finally, IZ does little to help—and reductions in housing construction likely hurt—households that do not qualify for subsidized housing or win housing lotteries but are still burdened by housing costs.

IZ, in short, is no substitute for broad housing affordability. There are enough signs, furthermore, that IZ frequently has bad second-order effects that municipalities should be wary of implementing these programs without carefully considering local economic conditions and taking care to limit market distortions. Cities with growing housing unaffordability would do better to act to avert overall housing shortages than to trust IZ, which, though politically convenient, is an inadequate and possibly counterproductive solution.

The Case Against IZ: A Priori Considerations and Basic Arguments

For most of its existence, IZ has had critics who allege that the benefits are small and vastly outweighed by the harms they cause by distorting housing markets. The first paper to make an economic argument against IZ at length was written in 1981 by Robert Ellickson, then a law professor at Stanford University and a founder of the Law and Economics movement.⁶

Ellickson’s basic argument, backed up more by theoretical economic reasoning than by data, runs as follows: by reducing developers’ revenue from new buildings, mandatory inclusionary zoning ordinances are essentially taxes on new development. These taxes can have two different influences on overall housing markets. If residents of a municipality with IZ can move easily to nearby, essentially interchangeable, municipalities, these other municipalities will limit how much IZ can raise housing prices. Instead, the prospect of lower revenues from housing projects will reduce the amount that developers are willing to pay for the land, reducing the quantity of housing construction and depressing property values in areas that could be redeveloped. But if municipalities that adopt IZ are large cities or have some other distinguishing characteristic, such as a university, that makes many residents captive to the municipal housing market, the housing shortfall produced by IZ could also provoke a significant increase in housing prices—paid for by renters and future homeowners while benefiting current homeowners.

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Ellickson made two other important points. First, many IZ programs are poorly targeted, benefiting middle-class rather than poor households. Second, by inhibiting a natural process of filtering by which buildings for the upper class depreciate and become accessible to poorer households, restrictions on market-rate construction even of apartments for the high-income residents could harm low-income residents as well.

It's worth considering this last point at length with a stylized “musical chairs” model of housing markets. Imagine a city with a supply of apartments ordered from most to least desirable, with the city's richest household occupying the best apartment and the poorest occupying the worst. A new top-of-the-line apartment will probably be occupied by the wealthiest household in the city, but other households benefit as well. The formerly best apartment in the city, now vacant, will now be available to the city's second-wealthiest household, for a slight bump in housing quality. If this household decides that a slightly better apartment would not be worth the hassle of moving, then another, slightly less wealthy, household might take the apartment instead, for a larger increase in quality. In any case, a slightly more down-market housing vacancy is opened up for another, still less wealthy, household.

What, by contrast, is the effect of a subsidized below-market unit? The household that moves in will receive a massive boost in housing quality at a steep discount. But that household, in turn, leaves vacant an apartment much closer to the bottom of the housing ladder, creating improved housing opportunities for far fewer households. Therefore, the choice between a new market-rate apartment and a new below-market apartment is one between providing marginal improvements to housing quality or reductions in housing costs for an entire city's population, or for providing a large amount of help to the fortunate recipient of a subsidized unit but improving market conditions only for a few.

This musical-chairs model is, granted, an oversimplification. For instance, a new vacancy might instead increase the total number of households in the city: a household from outside the city might move in instead, or one household—for example, unrelated roommates—may split into two. But the basic intuition remains valid: new market-rate housing, even “luxury” housing rented to a wealthy household, provides a benefit to renters broadly by enabling “chains” of movement to slightly better housing. These improved housing opportunities will be reflected by a general decline in market rents.

Judged purely by their effects on households eligible for subsidized housing, moreover, IZ policies have a less favorable case than this stylized model suggests. IZ, as Ellickson notes, renders unprofitable some developments that would be viable without IZ. Therefore, each below-market unit produced by IZ comes at the cost of more than one above-market unit. Even slight reductions in the amount of construction can markedly worsen this trade-off because projects that don't get built don't provide any below-market units, either.

It might help to put this point in mathematical language. Suppose that N housing units could be built profitably in a city without IZ. Suppose that IZ requires that a proportion b of new units be below-market, and as a result, a proportion p of new housing projects are no longer profitable. Then only $(1-p)N$ total housing units will be built, of which $b(1-p)N$ are below-market and $(1-b)(1-p)N$ are market-rate. The $(b-bp)N$ below-market units thus have an opportunity cost of $N - (1-b)(1-p)N = (b + p - bp)N$ market-rate units, so the “price” of a below-market unit is $\frac{b+p-bp}{b-bp} = 1 + \frac{p}{b(1-p)}$ forgone market-rate units.

If, for instance, a 25% IZ mandate reduces construction by 20% (i.e., $b = 0.25$ and $p = 0.2$), then each below-market unit costs two market-rate units. So for IZ to be worthwhile for improving low-income housing opportunities, every directly provided below-market unit must provide better opportunities than the filtering from two market-rate units—and this ignores the broader benefits of lower market rents.

While such figures are only illustrative, they are far from unreasonable. For example, the housing calculator at the pro-development nonprofit organization Up for Growth estimates that under the market conditions of Seattle, a mandate of 15% of new units reserved for families making, at most, 80% of the area median income (AMI) would cut in half the chance that a new high-rise project is financially feasible.⁷

Two other possible arguments against IZ are worth mentioning briefly. First, IZ gives subsidized housing advocates a perverse political incentive to keep market rents high in order to generate cross-subsidies for below-market housing, and to demand policies such as onerous permitting and zoning requirements that can serve as bargaining chips for getting more IZ units. In 2012, for instance, when IZ in New York City was a voluntary program of zoning bonuses, a few neighborhood politicians advocated downzoning expensive areas to force developers to use IZ bonuses,⁸ though such a step never reached serious consideration. More recently, many affordable-housing advocates in California have opposed AB 1401, a state bill to reduce minimum parking requirements in new housing—because they would prefer lower parking requirements to be part of an IZ program and offered to developers only in exchange for providing below-market housing.⁹

Second, below-market housing has drawbacks for tenants, compared with market-rate housing with the same rents. Tenants in below-market housing have their job opportunities reduced because they cannot move for jobs without, at the very least, dealing with the public housing bureaucracy. By the same token, retired and other nonworking inhabitants of subsidized units in areas with the best job access have little incentive to move out and yield their apartments to working households that would benefit more from job proximity. As tenants in subsidized housing cannot credibly threaten to move out, they have less leverage with abusive or neglectful landlords.

Empirical Evidence of IZ's Effects on Housing Markets

There are many studies on whether IZ decreases housing construction or increases overall market rents. These studies leave a bit to be desired. The results are not unanimous, and because most of them focus on comparing suburban jurisdictions in which most housing development consists of low-density single-family homes on vacant land, they may have limited applicability to cities that have already been developed. Because zoning codes are complicated and can differ completely between municipalities, even assembling a data set large enough to allow meaningful inferences is labor-intensive. Several of the existing studies, furthermore, focus only on California, in which many municipalities adopted IZ relatively early. Some of the other benefits claimed for IZ, such as promoting racial and economic integration, have not attracted much scholarly attention and produce weak, though sometimes encouraging, findings.¹⁰

Still, many studies have drawn useful conclusions on the strictly economic effects of IZ. Some of them find that IZ does reduce housing construction, drive up market rents, or affect housing markets in other harmful ways. Here is a brief, but not complete, list of frequently cited studies:¹¹

- Brown (2001), in a case study of IZ programs in the Washington, DC, metropolitan area, found that IZ was generally successful at creating affordable-housing units and economically integrated communities. However, these plans were more successful at creating new units in suburban areas with large amounts of open space than in “infill” development in areas that are already dense. Brown attributed this to the fact that area IZ programs such

as density bonuses aimed to offset the cost of land by allowing more housing units per unit of land, while for high-rise construction, the cost of land is less important compared with the cost of the building itself¹²—a relevant consideration for expensive cities with little remaining vacant land.

- Powell and Stringham (2004) found that in 45 municipalities in the San Francisco Bay Area, housing production fell by an average of 31% the year after a municipality adopted IZ, compared with the year before.¹³ In a follow-up study of eight municipalities in Los Angeles County and Orange County, they found that the seven years after the adoption of IZ saw 61% less housing construction than the seven years before.¹⁴ These declines, measured in absolute numbers of housing units, were several times as large as the number of affordable units produced through IZ. Though these effect sizes are striking, they must be taken skeptically. Powell and Stringham did not have a control group or compare housing construction trends in municipalities without IZ, so much of the effect they identified could come from other factors: it is possible, for instance, that many municipalities adopted IZ at about the same time as they exhausted their vacant developable land, or that general trends in the California housing market reduced the demand for new construction over the time covered by the study.
- Bento et al. (2009) compared California municipalities with and without inclusionary zoning from 1988 to 2005. (In these years, the authors note, the housing market in the state was generally strong, and housing construction was rapid.) They found that municipalities with IZ saw no reduction in single-family home construction and slightly more (though statistically insignificant) multifamily construction. But IZ did have other effects on the housing market. Municipalities with IZ saw an increase in market prices for upper-end homes and a slight decrease in average house size among lower-end homes, compared with municipalities without IZ, suggesting that the strong housing market allowed developers to pass on the costs imposed by IZ to buyers.¹⁵ (The authors' literature review points out several previous papers on California housing that had found no substantial effects of IZ on housing markets.)
- Schuetz et al. (2011) looked at IZ programs in the San Francisco Bay Area and in suburban Boston, where IZ mandates are typically "more narrowly written" than in California. They found that though IZ generally had small housing-market effects, it also produced little affordable housing in either region. In Boston, during times of generally rising housing prices, municipalities with IZ had greater growth in housing prices and reduced construction.¹⁶ In San Francisco, IZ did not affect construction and accelerated general house price trends, correlating with higher price growth during hot housing markets and with lower prices during cool housing markets.
- Levy et al. (2012) looked qualitatively at two IZ programs in the metropolitan Washington, DC, area: Montgomery County, Maryland, and Fairfax County, Virginia. At least as of the time of the report, Montgomery County's IZ program was a below-market quota ranging from 12.5% to 15% of all developments of 20 or more units, with density bonuses given only in exchange for building more below-market units than the minimum. Fairfax County's program was more permissive: it encouraged the production of "affordable dwelling units" (ADUs) but required them only for developers of buildings that were three or fewer stories. The program provided density bonuses automatically to developers who met ADU thresholds. Developers of buildings of four stories or more could also qualify for up to a 17% density bonus. The report notes that while political support for IZ in Montgomery County is strong, developers and other stakeholders agreed that the process impeded housing production. One developer quoted in the report recalled having to back out of a project on land that it would have bought from the county because, as a condition of sale, the county imposed a 30% below-market requirement that made the development unprofitable. Another developer suggested that "radically increasing the requirement to the 30%–35% range would

very likely stop his company from doing business in Montgomery County altogether.” By contrast, developers and other stakeholders in Fairfax County did not believe that the program affected housing construction.¹⁷

- Means and Stringham (2012) used a larger data set of California cities than Bento et al. (2009) and used an alternate methodology to compare house price and construction trends in the period 1980–2000. They found that cities that adopted IZ during the 1980s experienced 9% higher house prices and 8% fewer total houses in 1990 than would have been expected from their 1980 levels and the trajectories of comparable cities without IZ. Cities that adopted IZ in the 1990s, similarly, saw house prices increase by 20% by 2000 and the supply of houses decline by 7%.¹⁸ (These results refer to the total housing stock, including preexisting houses;¹⁹ the effects on construction must therefore have been larger.)
- Hamilton (2021) is a recent summary of empirical evidence on inclusionary zoning from the Baltimore-Washington region.²⁰ The average IZ policy in the region created only 9.2 below-market units of housing per year, though with an extraordinarily wide variation, with the most productive policy creating 1,224. Hamilton noted that two measures of IZ stringency correlate positively with higher house prices by municipality, though this finding by itself could mean that areas with higher house prices adopt more stringent IZ policies or that IZ causes house prices to increase. A more sophisticated model estimated that for every year an IZ program has been in effect, house prices increased by about 1.1%, compared with jurisdictions that do not have IZ. Hamilton reported that no evidence from the region suggested that IZ reduced housing production.

In sum, though the evidence is not consistent, it suggests that at least some IZ policies can noticeably reduce housing construction and raise market-rate house prices. Furthermore, while studies comparing municipalities with and without IZ typically ignore the differences between IZ policies, case studies such as Levy et al. (2012) suggest that specific details of IZ policies—such as the exact below-market quotas used and whether policies are accompanied by density bonuses or other relaxation of zoning rules—matter a great deal for the effects of IZ on housing markets.

The best research on “migration chains”—the process through which new market-rate housing creates vacancies for lower-income households to move into better existing apartments—has been conducted by Evan Mast of the W. E. Upjohn Institute. Based on a data set of address histories from Chicago, Mast noted that “barriers [between neighborhoods] appear to be permeable”—that is, there are not separate markets for upper- and lower-income housing.²¹ Furthermore, the filtering of new market-rate units down to the lowest levels does indeed happen to a substantial extent, according to a more complex computer simulation that Mast summarizes thus: “A simulation model suggests that building 100 new market-rate units sparks a chain of moves that eventually leads 70 people to move out of neighborhoods from the bottom half of the income distribution, and 39 people to move out of neighborhoods from the bottom fifth. This effect should occur within five years of the new units’ completion.”

These estimates suggest that roughly two new market-rate units might provide as much benefit to the lowest segment of the housing market as one subsidized below-market-rate unit—and, as we have discussed earlier, it is quite plausible that below-market units produced through IZ may come at a cost of two or more market-rate units.

Case Studies of IZ Failure: New York, Portland, and Minneapolis

In several large cities, furthermore, IZ seems likely to have contributed to housing shortfalls. Perhaps the best-studied example is New York City. In 2016, NYC introduced an uncommonly demanding IZ program called Mandatory Inclusionary Housing (MIH) which applied to most new apartment buildings with 10 or more units. MIH gave developers three options. Two were as follows: 30% of the floor area in new housing had to be “affordable” to a household making 80% of AMI (including 10% affordable at 40% of AMI), or 25% had to be affordable to households making under 60% of AMI.²² A third “workforce housing” option, available outside the most central areas of Manhattan, had more lenient BMR (below market rate) requirements but also required that developers forgo most subsidies.

Many of MIH’s difficulties were predicted by Josiah Madar in a report for the NYU Furman Center.²³ Based on housing-market modeling and interviews with developers, he concluded that even with full property-tax exemptions and a requirement of only 20% below-market units at 60% AMI—less demanding than the policy that was ultimately enacted—new residential construction would be profitable *only* in areas where market rents for one-bedroom apartments were above \$2,700 per month for high-rise construction or \$2,300 per month for midrise construction. Only Manhattan and a few inner parts of Brooklyn and Queens had rents this high. (Construction without using property-tax exemptions, meanwhile, would be profitable only in New York’s wealthiest neighborhoods.) The opportunity cost to developers of MIH in rich neighborhoods, meanwhile, was very high: about \$1.2 million per 1,000 square feet of rent-restricted apartment space in expensive areas such as core Manhattan. Madar noted that this opportunity cost could create far more units if it were collected as an in-lieu fee and devoted to below-market housing construction in less expensive areas of the city. (MIH does not allow in-lieu fees.)

As of September 2019, three and a half years after the enactment of MIH, the Manhattan Institute’s Eric Kober found that the results were meager: “2,065 MIH affordable dwelling units have been approved, in a city of 8.4 million residents.”²⁴ MIH produced few units, Kober noted, largely because upzoning had been concentrated in low-income areas. Of 36 discrete projects completed under MIH, 30 were all-affordable-housing projects that required hefty subsidies. Kober concluded by noting that “even in theory, the program works economically only in strong and very strong real-estate markets and only for new rental apartment buildings” such as central Manhattan—areas that were mostly exempted from rezonings under de Blasio.

Finally, MIH has almost frozen development in weaker housing markets, such as most of the Bronx, according to NYC real-estate analyst and blogger Stephen Smith. In a personal communication, Smith claimed that in his professional experience, vacant lots in NYC subject to MIH are very unlikely to find buyers, or to have new housing built on them even if they do find buyers.²⁵ Also of note is an analysis by the Furman Center, which found that housing units completed in New York are overwhelmingly concentrated in a few areas of Brooklyn, Queens, and the Bronx that are mostly rapidly gentrifying.²⁶

Two other examples of apparent IZ failure, studied in less detail, also deserve brief mention. In Portland, Oregon—according to the calculations of longtime IZ critic Joe Cortright—the city’s program has caused a massive shortfall in new construction projects. Portland’s inclusionary housing plan offers several options, including off-site construction and a fee-in-lieu-of option. But for developers who decide to include below-market units in their own buildings, the requirements are substantial, though more lenient than New York’s. In the center city, for

instance, developers must include 20% of the bedrooms in buildings of more than 20 units in apartments designated affordable at 80% AMI, or 10% at 60% AMI. (Requirements in other areas of the city are more lenient.)²⁷ Cortright notes that the implementation of IZ in Portland caused a considerable initial spike in new permits as developers raced to avoid the new requirements. That was followed by a sharp fall, with new housing permits falling over two-thirds from 2019 to 2020 (although some influence of the pandemic on construction activity cannot be excluded).²⁸ Cortright also notes a substantial shift in project sizes to evade the 20-unit threshold above which IZ applies: projects in the 21- to 25-unit size range have virtually disappeared.

In late 2018, Minneapolis adopted an interim inclusionary zoning policy that went into effect at the beginning of 2019. The city government had commissioned a report on the viability of IZ from the advocacy group Grounded Solutions Network, generally a staunch advocate of IZ. Grounded Solutions Network's analysis of Minneapolis housing-market conditions concluded that stringent IZ requirements—such as requiring 15% of units to be rented at 60% AMI—would still keep construction economically viable in downtown and other strong housing markets. But in softer housing markets, even mild IZ requirements would push new housing investments below the threshold of marginal economic viability.²⁹ The organization urged the city to consider a geographically targeted policy that exempts neighborhoods with softer housing markets—though they acknowledged some drawbacks, such as the expense and political controversy attendant to deciding which districts will get IZ.³⁰

The IZ policy that Minneapolis adopted, however, did not contain any geographic exemptions: instead, it required a 10%–20% below-market set-aside from multifamily projects that required certain permissions such as zoning variances. The early results have been lackluster, according to a commentary by Minneapolis real-estate attorney Jake Steen. Steen comments that “planning staff estimated between 364 and 728 affordable dwellings would have been created had the inclusionary zoning ordinance been in effect from 2015 through 2018,” but in the first six months of the IZ ordinance's existence, it created only seven affordable units. Though the project did not seem to be affecting the pace of construction, Steen noted, developers were changing the types of projects that they built to avoid IZ, including not pursuing projects that would require petitioning for rezonings—a trend that could lead to construction shortfalls in the future when the supply of land redevelopable under the current zoning code was exhausted.³¹

Does Development Cause Localized Harms?

Among urban economists, it is virtually uncontested that land-use regulation is a principal determinant of urban housing prices on the scale of entire cities or metropolitan areas: freer construction means lower prices.³² But left-wing antidevelopment advocates often argue that matters may be different on a neighborhood scale: especially in neighborhoods already undergoing gentrification, new construction might increase nearby prices. This argument is plausible enough to be worth addressing.

Under this theory, new market-rate buildings attract high-income households that would have otherwise sought better housing stock by moving to a wealthier neighborhood or to a different metropolitan area altogether. The arrival of higher-income households starts a self-catalyzing process of neighborhood gentrification, in which more upscale businesses are set up to serve affluent residents, who then attract more affluent residents in turn. This notion undergirds one emotionally resonant argument for inclusionary zoning: if market-rate development is somehow exploitative of poor neighborhoods, developers should at least be forced to offset their harms.

The empirical evidence for this argument is, at best, conflicted. Housing-market trends in cities such as New York, for instance, suggest that access to jobs is more important than housing quality in determining which neighborhoods gentrify: the sharpest housing price increases have been in central areas such as downtown Brooklyn and Williamsburg, which do not have the city's highest-quality building stock.

Formal quantitative studies of the effect of new construction on neighborhood rents also come to no unanimous conclusion. One recent study looking at NYC data estimated that a 1% increase in housing stock results in a surprisingly large 1.8% *increase* in rents for new buildings located within 150 meters of the new building.³³ An alternate study, also using NYC data, found that a 1% increase in housing stock would *reduce* rents by 0.1% for buildings in the same radius.³⁴ A Minneapolis study found a bifurcated effect of new construction on nearby rents. Lower-priced rental housing near new construction had 6.6% higher rents, compared with buildings slightly farther away. But new construction had the opposite effect on higher-priced housing; rents were 3.2% lower near new construction.³⁵ Probably the best study on the impact of low-income housing, finally, looked specifically at low-income neighborhoods in 11 cities and estimates that new buildings in low-income areas reduced rents within 250 meters by 5%–7%.³⁶

Conclusions

The empirical evidence on inclusionary zoning is conflicted, but a few conclusions can be drawn. First, IZ programs generally produce very few units and can be, at most, a minor part of affordable-housing policies. Second, some empirical studies, as well as a few case studies such as NYC and Portland, suggest that, at least sometimes, IZ can cause substantial reductions in housing construction. Furthermore, market-rate housing construction, even at the top end of the market, does improve housing opportunities in lower-income neighborhoods. This raises the possibility that the harm caused by IZ-induced reductions in market-rate construction may outweigh IZ's direct benefit, even to those eligible for subsidized housing. Finally, there is scanty evidence for one key justification of IZ: that new development exploits neighborhoods by driving local rents up.

Ultimately, there is no substitute for housing abundance and broad affordability, both of which require broad liberalization of construction restrictions. Political leaders in cities with growing housing unaffordability may be tempted to consider IZ as a seemingly cost-free way to provide housing units for the working class without spending tax money or overly antagonizing powerful interest groups such as longtime homeowners whose house-value appreciation depends on high market rents. But though the costs of IZ, such as inflated market rents, forgone property taxes, and less efficient job markets, may not appear directly on municipal budgets, they are still real. At the very least, a few recommendations can reduce the substantial malign effects of IZ while preserving whatever benefits it may have.

First, IZ policies should never reduce—and, ideally, should significantly expand—the allowable amount of market-rate construction. This proviso applies equally to mandatory quotas for below-market housing as to ostensibly voluntary programs, where it is tempting for politicians to demand reductions in the base zoning to force developers to take advantage of IZ policies. Broad upzonings and other construction deregulations, in addition to providing more market-rate housing, can make IZ programs more effective. For instance, after a reform to minimum parking requirements in San Diego facilitated building dense housing without expensive parking garages, the number of units created through a voluntary density bonus program sextupled, without any alteration to the IZ program itself.³⁷

Another example is Austin, Texas: a zoning code amendment passed in 2004 created a “University Neighborhood Overlay” that allowed taller buildings in West Campus, a central-city neighborhood near the University of Texas, for developers who agreed to provide a fraction of affordable units. As of November 2019, the overlay had produced 822 below-market units.³⁸ A zoning amendment passed that month strengthened the program, such as by raising the height limit in one section of West Campus for developers who accepted the IZ requirement from 175 feet to 300 feet.³⁹ Notably, many local homeowners objected to increasing height limits, and the political feasibility of the program owed much to the fact that West Campus is inhabited mostly by University of Texas students.

Second, IZ thresholds should be adjusted geographically based on actual housing demand. In low-income areas that are not seeing large-scale displacement, the best evidence is that new housing is an unmitigated good; the threat of new construction causing small-scale spikes in rents, if it happens anywhere, is likely confined to areas already undergoing gentrification.

Third, IZ policies should always allow developers to satisfy requirements with in-lieu fees or by building below-market housing in less expensive neighborhoods away from their main project. Although in-lieu and off-site options do have the drawback of not promoting the measure of economic integration that on-site requirements provide, this drawback pales in comparison with the enormous opportunity cost of an on-site requirement: the money that a developer gives up by renting one unit in an expensive area at below-market rents could go much further at creating new housing. The most pressing problem with housing affordable to low-income households in most expensive cities is that there is not enough of it; where it is located is a secondary concern.

Finally, even if IZ is generally a bad policy, the fact remains that high-cost cities do have substantial populations that urgently need help with housing costs. They may be more benefited, however, by alternate policies that have the advantage of giving the subsidized housing lobby an interest in reducing market rents and encouraging more construction. City governments could issue means-tested housing vouchers valid for any landlord willing to take them—and the lower market rents are, the more help these vouchers could provide for the same cost. And municipal governments could commit to tax-increment financing of affordable housing, devoting a percentage of the property-tax revenue from new developments to constructing purpose-built, city-run affordable housing.

Endnotes

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