

Inclusionary Zoning: A Public Policy Failure



A study of inclusionary zoning programs and practices in the San Francisco Bay Area was recently completed by Professors Benjamin Powell, PhD and Edward Stringham, PhD, both of San Jose State University. The following summarizes the critical findings of that study. For a copy of the complete study, visit www.rppi.org/ps318.pdf.

Annual housing production has chronically failed to meet the state's housing need, causing housing prices to escalate. The median home price in California is now upwards of \$400,000 and in nearly all of the state's job centers fewer than 25% of households can afford the median-priced home.

Faced with demands to "do something" some local governments have turned to inclusionary zoning ordinances. Inclusionary zoning imposes price controls on a percentage of new homes to compensate for high housing costs. The adoption of inclusionary zoning ordinances raises important public policy questions:

- Is it effective?** Does inclusionary zoning lead to a substantial increase in affordable housing production?
- Is it efficient?** How do inclusionary zoning's costs compare to its benefits?
- Is it equitable?** Does inclusionary zoning fairly apportion the cost of providing affordable housing?

This study, after evaluating the effects of inclusionary zoning principally in the San Francisco Bay Area, shows that this price-control mandate is an ineffective public policy response to high housing prices. Among other things, the study reveals that inclusionary zoning is a poor affordable housing producer; imposes huge costs on middle-income homebuyers; and robs lower-income homebuyers of equity.

The Bay Area was chosen because inclusionary zoning is particularly prevalent there – today more than 50 jurisdictions there have inclusionary zoning. But while the study focuses on the Bay Area, its findings are applicable to inclusionary zoning generally.



**California Building
Industry Association**
1215 K Street, Suite 1200
Sacramento, CA 95814
916-443-7933
fax 916-443-1960
www.cbia.org

FINDING: Inclusionary Zoning Generates Little Affordable Housing Production

Inclusionary zoning has resulted in few affordable units actually being built. In the 50 Bay Area communities with inclusionary zoning, only 6,836 affordable units have been produced in the last 30 years. This works out to just 228 units per year in the region. After passing an ordinance, the average jurisdiction produces fewer than 19 affordable units per year.

Inclusionary zoning has not come close to meeting the region's affordable housing needs. At current production rates, inclusionary zoning will only produce 4 percent of the region's affordable housing need as estimated by the Association of Bay Area Governments. Looking forward, it would take 100 years for inclusionary zoning to produce enough housing to meet the region's current short-term affordable housing need.

FINDING: Inclusionary Zoning is Exceedingly Costly

Inclusionary zoning is not cost-effective and is a very expensive means of helping lower-income families afford housing. The total cost to build just 6,836 inclusionary units in the Bay Area over the last 30 years is \$2.2 billion – roughly \$325,000 per unit.

FINDING: Inclusionary Zoning Taxes Market-Rate Homebuyers

The high costs of inclusionary units are hidden from the public, at large, but are real costs for new homebuyers. It is estimated that inclusionary zoning causes the price of new homes in the median jurisdiction to increase by more than \$37,000 – a direct tax on market-rate homebuyers.

FINDING: Inclusionary Zoning Restricts the Supply of New Homes

In addition to increasing the price of new housing, inclusionary zoning profoundly decreases its supply, making the policy a potentially effective growth-control tool. By increasing housing costs through its price-control mandates, inclusionary zoning impacts land markets – creating disincentives for landowners to make their land available for residential use.

In the 45 cities where data is available, new housing production decreased dramatically the year after communities adopted inclusionary zoning. In the 35 communities with data for seven years prior and seven years following adoption of inclusionary zoning, 10,662 fewer homes were produced – despite rising demand – during the seven years after the adoption of inclusionary zoning.

FINDING: Inclusionary Zoning Cheats Families out of the Full Benefit of Homeownership

Resale controls imposed by inclusionary zoning greatly restrict one of the principal benefits of homeownership – equity growth and earnings. Inclusionary zoning programs typically require qualifying homebuyers to sell their homes at below-market prices, robbing them of equity created by maintenance of and improvements made to their homes.

Case studies show that many eligible households recognize this and refuse to buy inclusionary units without even deeper discounts.

FINDING: Inclusionary Zoning Costs Government Revenue

Price controls on new development lowers assessed values and costs state and local government tax revenues each year. Because inclusionary zoning restricts resale values for a number of years, the loss in annual tax revenue can become substantial. The total present value of lost government revenue due to Bay Area inclusionary zoning ordinances is \$553 million – enough to build more than 40 elementary schools.

CONCLUSION: Inclusionary Zoning does not Address California's Affordability Problem

The root cause of the California's housing affordability crisis is the lack of an adequate housing supply. Inclusionary zoning fails to address the housing supply problem and actually makes it worse. A far better approach to dealing with California's affordability crisis is that suggested by the state's Little Hoover Commission: "To increase the supply of affordable housing, communities need to zone more land for housing, increase general plan and zoning densities to allow for higher residential density and rethink other standards."