Colorado Housing Affordability Project Issue Brief No. 1:

Land Use Restrictions' Impacts on Economic Growth

This paper is one in a series of Colorado Housing Affordability Project issue briefs summarizing the latest research on housing concerns statewide, from the origins of the affordability crisis to the best practices for addressing it. For every topic, CHAP's subject-matter-expert authors identify a component of that crisis, deliver the information essential to understanding the issue, and provide links or citations to further explore the supporting research. The entire CHAP issue brief series is available at https://cohousingaffordabilityproject.org/the-research/ and continues to grow, so check back often.

The Issue: Land use restrictions control housing development, often with the goal of preserving community character and aesthetics but without emphasis on economics. This issue brief examines those controls' effects on economic development.

The Takeaway: The American city is no longer an "urban growth machine" and has instead become a "homeowners' cooperative."[1] Land use restrictions that limit housing development hurt housing affordability and in turn limit economic development. Today's high housing prices don't reflect better building materials or improved city amenities: zoning restrictions inflate housing costs so that Coloradans are paying more without getting more. High housing prices also prevent Americans from moving from areas of low economic opportunity (like the Rust Belt), to areas of high economic opportunity (like Colorado's Front Range). This substantially cuts economic growth, costing the country trillions and the state billions. Zoning constraints have also allowed the already-affluent to reap the benefits of home price gains, at the expense of younger, less-well-off residents. Land use reform therefore offers economic growth that Coloradans will share more equitably.

The Research: The academic literature on housing supply constraints and economic growth identifies three primary points: (1) zoning controls have prevented new housing construction that historically addressed high housing prices; (2) high housing prices have prevented Americans from finding jobs in cities with greater economic opportunities; and (3) land use restrictions have transferred vast amounts of wealth from younger, poorer renters to older, richer homeowners.

Until the early 1970s, economic growth and housing growth went hand-in-hand: when a city's economy grew, its housing stock grew along with it, and housing prices roughly tracked the cost to build new housing. When a new factory opened, for instance, developers built housing to meet the new workers' demands. Beginning in the 1970s, that relationship broke down. Cities' restrictive land use and zoning regulations slowed new housing growth, and, as a result, housing prices began to rise without corresponding construction to check them.[2] By the 1990s, the

[1] Edward L. Glaeser, Joseph Gyourko & Raven Saks, Why Have Housing Prices Gone Up? 4-9 (Nat'l Bureau of Econ. Research, Working Paper No. 11129, 2005), http://www.nber.org/papers/w11129; *see also* Robert C.
[2] *Id.*; Ellickson, *Suburban Growth Controls: An Economic and Legal Analysis*, 86 YALE L.J. 385, 390-91 (1977).

relationship was completely reversed. High housing prices predicted *reduced* construction in the following decade.[3]

Fifty years ago, housing prices exceeded construction costs in only a few metropolitan areas—notably, San Diego, Los Angeles, and San Francisco.[4] More recently, however, twenty-seven metro areas, including those along the Front Range, suffered from significant gaps between construction costs and housing prices.[5]

Zoning restrictions that prevent new housing development are responsible for the change. A 2020 analysis in the Journal of Urban Economics confirmed that other factors, like more attractive city amenities cannot make up for these higher prices.[6] The same house simply costs more than it used to. Zoning's constraints mean workers now pay more without getting more—resulting in negative effects that gross domestic product alone cannot measure. Zoning-inflated housing prices make workers worse off.

Land use restrictions also directly reduce economic growth. A widely cited 2015 economic analysis covering 220 cities and almost a half century of American growth concluded that zoning-induced high housing prices have lowered the country's potential GDP by 13.5 percent.[7] That amounts about $2.5 *trillion* (adjusted from 2009 to today's dollars) in lost productivity every year, or more than $11,500 for the average worker. How? By preventing Americans from doing one of the things they have historically done best: moving toward opportunity.[8] Multiple papers have now joined the original 2015 finding that restrictive land use controls that hamper new housing and increase prices are preventing Americans from moving away from failing cities and toward those that are more prosperous.[9] The result: worker productivity is lower because workers remain in regions that cannot make full use of their talents. Assuming the same 13.5 percent GDP reduction applies to Colorado and its superstar Front Range cities, years of restrictive zoning are now costing the state more than $4.5 billion per year. Even if that number overstates the impact by half, $2.25 billion per year still amounts to an enormous financial hit.

In addition to reducing growth, zoning restrictions change who benefits from it: most gains go to the already wealthy. Recent research indicates that the already-affluent have not only enjoyed a

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[3] *Id.*
[4] *Id.* at 5, 31.
[5] *Id.*
[6] David Albouy & Gabriel Ehrlich, *Housing productivity and the social cost of land-use restrictions*, 107 JOURNAL OF URBAN ECONOMICS, 101-120, 107 (2018).
[7] In other words, restrictive zoning lowered growth every year between 1964 and 2009, resulting in total, national economic output that is 13.5 percent lower than it would have been without those zoning restriction. Chang-Tai Hsieh and Enrico Moretti, *Why Do Cities Matter? Local Growth and Aggregate Growth* (May 1, 2015). Kreisman Working Papers Series in Housing Law and Policy No. 30, Available at SSRN: https://ssrn.com/abstract=2693282 or http://dx.doi.org/10.2139/ssrn.2693282
[8] Since 1980, migration rates have declined and disadvantaged people no longer disproportionately move to higher wage areas. Raven Molly *et al*., *Internal Migration in the United States*. 25 JOURNAL OF ECONOMIC PERSPECTIVES 3: 173–196, *available at* https://doi.org/10.1257/jep.25.3.173; Peter Ganong & Daniel Shoag, *Why has regional income convergence in the U.S. declined?* 102 JOURNAL OF URBAN ECONOMICS, 76–90 (2017), *available at* https://doi.org/10.1016/j.jue.2017.07.002.
[9] *E.g.*, Edward L. Glaeser, & Josph Gyourko, *The economic implications of housing supply*, 32 JOURNAL OF ECONOMIC PERSPECTIVES 1, 3-30 (2018); Christopher Tonetti, *Comment: Tarnishing the Golden and Empire States: Land-Use Regulations and the U.S. Economic Slowdown* 93 JOURNAL OF MONETARY ECONOMICS, 110-113 (2018).

disproportionate share of the country's growth wealth, but that home price gains—resulting from land use restrictions—account for a significant fraction of that growth.[10] At the same time, home price gains reduce affordability for renters looking to enter the housing market, and those renters are on average younger and poorer than current homeowners.[11]

Restrictive zoning and growing home prices have therefore transferred vast amounts of wealth to older, wealthier, homeowners. In 1983, the median 35-44 year old had about $56,000 in housing net worth. Thirty years later, that number was just $6,000. Both older and already-wealthy Americans watched their housing wealth grow, however: the top one percent saw housing wealth double from about $530,000 to more than $1 million, and median Americans between 65 and 74 saw their housing net worth increase from about $80,000 to more than $100,000. Easing land use restrictions would more equitably distribute growth in housing wealth.

Learn More. Interested in learning more about this topic? The following links provide additional research on the link between land use regulations, housing affordability, and economic growth:

- The Economic Implications of Housing Supply
- Housing Productivity and the Social Cost of Land Use Restrictions
- The Closing of America's Urban Frontier
- Urbanization and Its Discontents
- Why do cities matter? Local growth and aggregate Growth
- The Growth of Control? Changes in Local Land-Use Regulation in Major U.S. Metropolitan Areas From 1994 to 2003
- Tarnishing the Golden and Empire States: Land-Use Regulations and the U.S. Economic Slowdown
- The Long-Run Impact of Zoning in US Cities. In: Levine-Schnur R. (eds) Measuring the Effectiveness of Real Estate Regulation

[10] Gianni La Cava, *Housing Prices, Mortgage Interest Rates and the Rising Share of Capital Income in the United States*, BIS Working Paper 572 (2016).
[11] Edward L. Glaeser, & Josph Gyourko, *The economic implications of housing supply*, 32 JOURNAL OF ECONOMIC PERSPECTIVES 1, 3-30 (2018).