

## **Precis of the Furman Study**

This is a summary of *The Effects of Inclusionary Zoning on Local Housing Markets: Lessons from the San Francisco, Washington DC and Suburban Boston Areas*, written by Vicki Been, Rachel Meltzer and Jenny Scheutz for the Furman Center for Real Estate & Urban Policy in 2007.

### **Introduction**

The study was commissioned by the Center for Housing Policy, the research affiliate of the National Housing Conference in the US, which works to develop effective policy solutions that increase the supply of affordable homes.

The Furman Center for Real Estate and Urban Policy associated with New York University was established in 1995 to provide objective academic and empirical research on legal and public policy issues related to land-use, housing, real estate and urban affairs.

This report set out to provide an objective and methodologically rigorous examination of the impact of inclusionary zoning (IZ) on the price and production of market-rate single-family housing. It collected data on housing prices, construction permits and other relevant data for the municipalities in the three metropolitan areas around Boston, San Francisco and Washington DC for the period of 1980-2005. It then subjected this data to standard regression analyzes.

The study was undertaken to examine empirically three key questions: 1) what kinds of jurisdictions have adopted Inclusionary zoning; 2) how much affordable housing have they produced, and what influenced that production; and 3) what has been their impact on the price and production of market housing. Of these, only the third question was really addressed to any substantial extent, and that is the focus of this review.

As noted in the report, there are arguments that inclusionary zoning programs could have an adverse impact on supply and price by 1) driving developers to build where there are no inclusionary zoning programs and/or 2) having them increase prices to cover their losses incurred in providing the affordable units. The study represents the first major effort to examine the validity of these hypotheses in an objective, comprehensive and analytical way.

The report points to the paucity of rigorous empirical data as the key reason for lack of good studies in the past. As a result, it noted most of the existing studies are descriptive case studies, and many reflect the strong ideological biases of the authors.

## **Key Findings**

The study's key findings regarding the impact on price and production are summarized here, using as much as possible the (sometimes obscure) words of the report. The findings are taken from both the executive summary and main body of the report.

### Executive Summary

The main finding as highlighted in the executive summary is this: "In the San Francisco area, there is no evidence that IZ impacts either the prices or production of single family homes. In suburban Boston, IZ seems to have resulted in small decreases in production and slight increases in the prices of single-family houses".

There is also this telling finding: the results from the San Francisco area "suggest that adverse price and supply effects are not inevitable consequences of IZ ... it seems likely that the details of the policies – particularly the inclusion of effective cost offsets – matter considerably".

### Main Body

The main body of the report provides additional findings specific to the three areas.

#### *Boston*

The analysis provides "some evidence that IZ constrains new development, but the results are not conclusive. The simplest model ... suggest[s] that the presence of IZ is associated with roughly 10 percent fewer single-family permits per year ... [and] that adopting IZ is associated with just under a 3 percent increase in prices".

Although not made in the report, these clarifications to these findings can be made.

- First, the 3% increase in house prices possibly attributable to inclusionary zoning is for the 25-year study period, and so averages no more than 0.12% per year.

This particular price increase also should be seen in the context of the very significant overall price increases that occurred in this area. For the period of 1986-2005 (not the full 1980-2005 study period), the price of single family homes in the greater Boston area increased by 151%. For 1980-2004, housing prices in three of the main census districts for the Boston metropolitan area increased between 179 and 210%.

- Second, the 10% drop per year in building permits is for single-family units, and not total units. A drop in single-family permits is quite understandable because these programs require the development of affordable housing, much of which was probably provided in multi-family forms.

The report itself adds these important caveats to these findings:

- “These results [could] imply ... changes in housing market conditions that are correlated with the adoption of IZ, rather than the effects of IZ itself”.

In other words, this caveat is raising the possibility that inclusionary zoning is a response to certain housing market conditions (like rising prices) and not the cause of them. As noted elsewhere in the report, inclusionary zoning is typically adopted in high-priced and fast-growth communities to address the affordability issues caused by the already rapidly rising house prices.

- In the Boston area, “adopting IZ is positively correlated with having several other types of regulations”, including specifically growth management policies. “These results are consistent with a situation where the adoption of the IZ is correlated with other regulatory changes and those other changes, rather than IZ, produced the previously estimated constraint on supply”.

In other words, inclusionary zoning in the Boston area is typically found in communities using other land-use regulations, including most notably growth management policies. So, it is possible that these other regulations might be causing the constraint on supply rather inclusionary zoning.

### *San Francisco*

“The analysis shows no evidence of a statistically significant effect of IZ on either single-family permits or single-family housing prices in the San Francisco area... Based on the data available, it does not appear that the adoption of IZ among jurisdictions in the Bay Area has produced systematic effects on either housing production or housing prices”.

### *Washington DC*

The study could not complete the analytical exercise for the Washington area because the sample of jurisdictions was too small, but the report did provide a descriptive review of what was found there. (In the Washington area, local government is based on large counties. So, although used pervasively, there are only a small number of jurisdictions using inclusionary zoning.)

“The analysis of IZ in the Washington DC area also reveals no effects of IZ on permits or prices, although it is impossible to determine whether this reflects the true impacts of IZ or simply the severe data limitations”.

The report also points out this relevant finding. The data in some of the jurisdictions “show changes in housing permits and prices that are difficult to explain solely as a result of adopting IZ”. More specifically, in some communities after implementing inclusionary zoning, there was a drop of prices or an increase in production.

## Follow-Up Point

The findings of the report contain a telling anomaly that is not fully addressed, and so merits additional attention.

The results for the Boston and San Francisco areas, if anything, are the opposite of what might be reasonably expected. If there was an adverse impact from inclusionary zoning, it should have been felt in the SF area rather than Boston. The report offers possible reasons for this, without making this particular point.

First of all, it must be noted that the data from the SF area are more reliable than that for Boston. The SF programs generally have produced far more housing, and produced it over a much longer time. Nearly all of the SF inclusionary zoning programs have produced some affordable units, while slightly more than half (57%) in the Boston area reported having done so. The median length of time for the programs in the SF sample was 12 years, while the corresponding figure for the Boston area was 2 years.

Putting this another way, the finding that the SF programs have no impact is based on a greater weight of evidence than the finding that the Boston programs have had an adverse (albeit marginal) impact.

The programs in the San Francisco area are more likely to have an adverse effect than those in Boston. Most of the SF programs (93%) are mandatory, and furthermore, are applied to nearly all developments. In contrast, only about half (58%) in the Boston area are said to be mandatory, and in many cases these provisions only apply to limited areas or types of development (like cluster developments). As the report correctly says, “compared to mandatory programs, voluntary programs should be less likely to lead to increased prices and decrease production of market-rate units” (page 12).

The report points to two possible and very relevant reasons for this anomaly:

- The programs in the San Francisco area are more flexible in how they allow developers to meet their obligation, as they allow for fees-in-lieu and land dedications as alternatives to on-site construction. At the same time, they are more likely to offer density bonuses and other cost offsets to mitigate any impact. This indicates that inclusionary zoning programs can be designed to mitigate any adverse impact on price and production.
- The inclusionary zoning programs in the Boston area have a “positive correlation” – that is, are commonly associated – with growth management policies. By their very nature, these policies restrict new housing development. This indicates that the growth management policies could be causing the negative effects attributed to inclusionary zoning. The report acknowledges this possibility, but states that it could not “unpack” the two effects.

## Overview

This report presents important and seminal research. It is the first to apply a rigorously analytical and empirically based research on the impact of inclusionary zoning.

The findings of the study do not support the assertion that inclusionary zoning adversely impacts the price or supply of market housing in communities where it is adopted.

The report found only a marginal impact in the Boston study area, while also pointing to two reasons for that impact:

- Inclusionary zoning has been typically adopted in fast-growing and high-cost communities in response to already rapidly rising house prices. The study was unable to determine whether the price increases after the adoption of inclusionary zoning were caused by inclusionary zoning or the other prevailing conditions.
- Inclusionary zoning was often found in communities that have adopted other regulatory measures, and particularly growth management policies that are known to restrict new housing production. The study again was unable to distinguish the impact of these regulations and impact of inclusionary zoning.

The report also presents evidence, but without exploring in sufficient depth, that the impact of inclusionary zoning could be mitigated or overcome through the provision of cost offsets and compliance alternatives.

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