Addressing Affordable Housing—Inclusionary Zoning is Not the Answer

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Affordable housing realities

- Affordable housing is not new housing
- Housing ladder
- Price spikes have only 3 fundamental causes:
  1. Production costs
  2. Demand spike
  3. Supply restrictions
- Harvard Institute of Economic Research

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Inclusionary Zoning

- A mandate to sell some units below cost is a price control
- Works like a development fee or tax
- Should be expected to reduce supply and increase prices—the opposite of the desired effect.
- Draconian, but where is the research?

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IZ Advocates Speak

• “The price of housing is not a function of its development cost. Rather, housing price, be it rents or sale prices, are solely a function of market demand” (David Paul Rosen 2004).

• “Even if their profits are not maximized, developers will still realize acceptable profits. Therefore, developers will still develop” (Padilla 1995).

• Institute for Local Self Government states that inclusionary zoning helps, “Offset the demand on housing that is created by new development.”

• “Developers often fail to participate because they do not understand the economics of the program” Kautz (2002).
Number of Bay Area Cities With Inclusionary Zoning

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Number of Los Angeles County and Orange County Cities with Inclusionary Zoning
Inclusionary Production
Bay Area

--Fewer than 7000 units in 30 years
--Only 228 Annually
--Avg City Produces fewer than 15 annually

Figure 2: Housing Needs Versus Expected Units Produced Under Inclusionary Zoning

"Affordable" units produced through inclusionary zoning. (Calculated for 5.5 years by multiplying average units per year produced under inclusionary zoning times 5.5.)

Five year housing needs according to the Association of Bay Area Governments "Regional Housing Needs Determination".

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Inclusionary Production

LA/OC

• Fewer than 6400 units in 27 years
  4400 of them in Irvine

• Only 236 Annually, only 71 excluding Irvine

• Avg City Produces fewer than 34 annually

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Compared to Need

96%

4%

"Affordable" units produced through inclusionary zoning. (Calculated for 5.5 years by multiplying average units per year produced under inclusionary zoning times 5.5)

Shortfall of affordable units not produced through inclusionary zoning. (Data is only for cities with inclusionary zoning.)

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Bay Area housing production one year before and after IZ

Figure 13: Average Production of Housing Before and After the Ordinance for 45 Jurisdictions (One Year Before/After Adoption of Inclusionary Zoning)
Bay Area 1 Year Increase in "affordable" units vs. overall decrease in new construction associated with inclusionary zoning

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Southern California housing production 7 years before and after IZ
LA/OC 7 Year Increase in "affordable" units vs. overall decrease in new construction associated with inclusionary zoning

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Average cost associated with selling each Bay Area price controlled unit

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Average Cost Associated With Selling Each Price-Controlled Unit

- Long Beach
- Monrovia
- West Hollywood
- Pasadena
- Brea
- San Juan Capistrano
- Huntington Beach
- Irvine
- Agoura Hills
- San Clemente
- Santa Monica
- Rancho Palos Verdes
- Laguna Beach

$0
$200,000
$400,000
$600,000
$800,000
$1,000,000
$1,200,000
$1,400,000
$1,600,000

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Effective tax imposed on Bay Area new market-rate units caused by Inclusionary zoning
Effective Tax Imposed on New Market-Rate Units Caused by Inclusionary Zoning

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There are alternatives

Let the housing market work

• Eliminate Exclusionary Zoning, Growth Boundaries, Permit Moratoria, and Inclusionary Zoning Itself

• Work with the housing ladder
  – Location efficient mortgages
  – Mortgage/rental assistance
  – Non-profit efforts-Habitat for Humanity