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To: Oakland Blue Ribbon Commission on Inclusionary Zoning

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RE: Promoting Affordable Housing by Addressing the Root Cause

I have asked the staff to include this memo in the packet for the March 1st meeting because unfortunately I will be out of town and unable to attend. This is a vitally important meeting if we are going to succeed in making housing more affordable in Oakland. In this memo I will communicate the consensus among professional economists on what the root causes of unaffordable home prices are and some suggestions of how we can combat these high prices.

Economists have found that the leading causes of high housing prices in the nation's least affordable markets are government regulations and restrictions that prevent or slow the expansion and renewal of local housing supply. Housing prices of both new and existing homes are determined by the total supply of homes in relation to the demand for them. In most markets increases in demand are met with an increasing quantity supplied. Unfortunately the supply side of the market has been restricted by government regulations and prohibitions here in the bay area and most of the nation's other least affordable markets. The result has been a dramatic decrease in home affordability.

Many economists who have found that government restrictions on building cause the housing affordability problem are not ideologues or advocates of any interest group. It has been found by economists at top universities and published in the leading peer reviewed scholarly journals. For example, Harvard economist Edward Glaeser and Wharton economist Joseph Gyourko studied the relationship between land-use regulation and housing prices. They found where land was relatively unregulated homes were priced "at close to construction costs."¹ But in regulated areas, homes cost much more than the cost of construction. They estimated that 90 percent of the difference between the physical construction cost of a new home and its market price was caused by government land use regulation and only 10 percent of the difference was due to intrinsically scarce land.

¹ Edward L. Glaeser and Joseph Gyourko, *The Impact of Zoning on Housing Affordability* (Cambridge, MA: Harvard Institute of Economic Research, 2002).



UC (Berkeley) professors John Quigley and Steven Raphael reached similar conclusions. In a study focused specifically on California that they published in the *American Economic Review* (the top rated scholarly economics journal) they find “a positive relationship between the degree of regulatory stringency and housing prices” and “that new housing construction is lower in more regulated cities.” As a result, housing prices grew fastest in more regulated cities.²

These studies are representative of the consensus among economists who have studied the effects of land use regulation on housing prices. I have included footnotes with each reference in case any commission member would like to examine them. I am also attaching with this memo two policy studies written for lay and policy audiences that are more “readable.” The first is by the above Harvard and Wharton professors, which is basically a translation of their scholarly study into a more readable form. The Oakland based Independent Institute in conjunction with the American Dream Coalition, an organization that seeks to promote home ownership in the U.S., published the second.

Because restrictions on new construction are the root cause of affordability problems it is essential that this commission recommend some form of repeal and/or roll back of supply restrictions in Oakland if we want to actually achieve affordability. I concur with Professors Glaser and Gyourko when they write, “if policy advocates are interested in reducing housing costs, they would do well to start with zoning reform. Building small numbers of subsidized housing units is likely to have a trivial impact on average housing prices, even if well targeted towards deserving poor households. However reducing the implied zoning tax on new construction could well have a massive impact on housing prices.”³

Because the March 1st meeting is supposed to consider broad reforms that can increase affordability I therefore recommend that a commission member present make a motion to include with our other recommendations to the city council “a recommendation to roll back and/or repeal measures that restrict the supply of new construction. These reforms could include, but need not be limited to, abolishing or scaling back exclusionary zoning that mandates minimum lot sizes and set backs, speeding the permit processing time, pledging to not place quantitative limits on permits now or in the future, rezoning for higher densities, lowering impact fees, and making more land available for development.” Hopefully in the course of the March 1st meeting when the planning department briefs the commission on the specifics of conditions in Oakland board members will identify more restrictions specific to Oakland that they can include in their recommended list of restrictions to be scaled back and/or eliminated.

I understand that there are drawbacks to eliminating some of these restrictions. However, our task as a commission is to make recommendations to the city council that would increase home affordability. Given the consensus of scientific economic research it would be irresponsible of this commission to make any

² Quigley, John M. and Raphael Steven. “Regulation and the High Cost of Housing in California,” *American Economic Review*, 94(2).

³ Glaser and Gyourko, *Ibid*.



recommendation that did not include scaling back building supply restrictions. The council, not this commission, will have to weigh the merits of increased affordability achieved by this method against other social goals.