

## Economic Impacts of Regulatory Barriers to Affordable Housing

Local officials and not-in-my-backyard neighbors (NIMBYs) have made many communities increasingly inhospitable to virtually all new development, especially development of affordable housing, over the past several decades. Regulations have been passed that are intended, at least in part, to increase the difficulty of obtaining permits and slow the pace of new development. These regulations affect not just developers and those in need of affordable housing, but have harmful economic impacts on all community residents.

Some of the impacts are relatively immediate: a loss (or lack of growth) in construction jobs and local construction-related spending; a decline in vacancy rates leading to increased rents and house prices; and lengthening commutes as workers seek lower housing costs. In the longer-run, high housing costs put upward pressure on wages, both for local businesses and for government workers. If wages cannot keep up with house price increases, high housing costs lead to difficulty with recruiting and retaining workers. Finally, as some families decide to leave the area altogether for lower housing costs, the available workforce shrinks and metropolitan growth stalls.

### Short-run impacts:

- **Regulations directly impact construction industry jobs and local construction-related spending.** In addition to creating jobs, construction often results in development fees and assessments to local governments. A study of the Twin Cities in Minnesota estimated that if sufficient workforce housing were constructed to meet the need over the next five years, economic benefits would include \$1.6 billion in the form of increased construction wages and development fees and assessments.<sup>i</sup> Additional local jobs will be created as well, as construction workers spend their income on local goods and services. According to the Department of Commerce, for every 10 jobs directly related to a construction project, another 8 jobs are created locally. Similarly, a study of nonresidential project development showed that a more efficient building permitting process results in a permanent increase in property tax revenues and construction spending.<sup>ii</sup>
- **Regulations increase the price of all housing in a region.** Most of the areas that have seen dramatic house price increases over the last decade have been on the coasts, leading to arguments that high house prices are the result of a dwindling supply of available land. Recent studies, however, demonstrate that any declines in the availability of land are artificial – the result of local governments severely limiting new construction through land-use regulation – and not the result of natural barriers.

Regulations such as minimum lot sizes, wetland regulations, septic rules, and subdivision policies, reduce the amount of development in an area by reducing the number of permits granted. These land-use regulations result in inelastic supply, impeding the ability of the market to respond to an increase in demand. Greater demand for housing therefore leads to higher prices for all housing –

new and existing – rather than greater production of housing units. These higher prices reduce the share of housing that is affordable to average-income households. One study concludes that in the Boston region, housing prices might have been 23 to 36 percent lower by 2004 if regulation had not reduced new permits since 1990.<sup>iii</sup>

- **Regulations and resulting high house prices lead to a lower quality of life for the region’s residents.** The search for affordable housing leads many households to far-flung suburbs, leading to long commutes and the resulting increases in congestion, infrastructure costs, and lower air quality. Long commute times also leave workers less time for their families, volunteer and social activities, and other ways of engaging in their communities. One study concluded that each additional 10 minutes of commuting time cuts all forms of civic engagement by 10 percent.<sup>iv</sup>

### Long-run impacts:

- **High housing prices increase wages local businesses must pay to retain workers.** Housing-supply restrictions that result in high housing prices mean that either businesses have to pay higher wages or move out of state to a place with lower housing costs and wages. In California, New Hampshire, Rhode Island, Maryland, Wisconsin, Colorado, and other states, business leaders have pointed to high housing costs as a significant problem involved in doing business in their states.<sup>v</sup>
- **High housing costs also put pressure on wages for local government employees.** Governments as well as businesses are impacted by high housing costs. These costs increase the wages required to retain vital local employees such as teachers and fire fighters, increasing the cost of providing community services. These increased costs lead to either increases in service fees or property and other taxes.
- **In addition to wage pressure, high housing prices increase the difficulty of attracting and retaining workers.** Because wages have been unable to keep up with housing costs, businesses, universities, hospitals, and other employers in high-cost states report increasing difficulty in attracting and retaining high-quality employees.<sup>vi</sup> Likewise, high housing costs make it difficult for states to attract new businesses and retain existing employers. Employers in New Hampshire increasingly report that housing issues also affect employee morale and employee productivity.<sup>vii</sup>
- **High housing costs limit the available workforce, and most severely impact those who can least afford to pay them.** These include workers whose services are indispensable to communities but whose wages have not kept up with housing prices, such as teachers, fire fighters, police officers, nurses, and janitors. It also includes young families seeking to make a first-time home purchase. These workers are essential to the future strength of a region’s economy. Many of these families, faced with unaffordable housing, will relocate to less expensive areas. For example, in Long Island, New York, the number of

18 to 34 year-olds declined by 20 percent during the 1990s, largely a result of high housing costs. Similarly, Connecticut lost 22 percent of its population in this age group from 1990 to 2000.

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<sup>i</sup> Maxfield Research Inc. and GVA Marquette Advisors (2001). "Workforce Housing: The Key to Ongoing Regional Prosperity," prepared for the Family Housing Fund.

<sup>ii</sup> PricewaterhouseCoopers (2005). "The Economic Impact of Accelerating Permit Processes on Local Development and Government Revenues," prepared for the American Institute of Architects.

<sup>iii</sup> Glaeser, Edward L., Jenny Schuetz, and Bryce Ward (2006). "Regulation and the Rise of Housing Prices in Greater Boston," Cambridge: Rappaport Institute for Greater Boston, Harvard University and Boston: Pioneer Institute for Public Policy Research.

<sup>iv</sup> Virginia A. Hodgkinson and Murray Weitzman, *Giving and Volunteering in the United States* (Washington, D. C.: Independent Sector, 1996), cited in *Better Together: The Report of the Saguro Seminar, Civic Engagement in America* (Cambridge: Harvard University, 2000).

<sup>v</sup> *Ibid*; Shapiro, Lisa K., Heidi L. Kroll, Hannah E. Kelly (2005). "Housing New Hampshire's Workforce," Manchester, NH: The New Hampshire Workforce Housing Council; and East Central Wisconsin Regional Planning Commission (2004). "Overcoming Barriers to Affordable Housing in the East Central Region," Menasha, WI.

<sup>vi</sup> Carman, Ted, Barry Bluestone, and Eleanor White (2003). "Building on our Heritage: A Housing Strategy for Smart Growth and Economic Development; Report and Recommendations for The Commonwealth Housing Task Force," Boston: The Boston Foundation, The Commonwealth Housing Task Force, and the Center for Urban and Regional Policy, Northeastern University.

<sup>vii</sup> Shapiro, Lisa K., Heidi L. Kroll, Hannah E. Kelly (2005). "Housing New Hampshire's Workforce," Manchester, NH: The New Hampshire Workforce Housing Council.