

## Using Federal Incentives to Accelerate State and Local Zoning Reforms

Local land use regulations play an important role in advancing health, safety, and community well-being. But overly restrictive zoning and building requirements can: drive up the cost of home building, contribute to a shortage of affordable homes, and limit the number of families that Habitat for Humanity and other housing providers can serve. Habitat is exploring how the federal government can complement and accelerate local and state zoning reforms by creating funding incentives that encourage more localities to accommodate more diverse housing types and affordable homes in a wider array of locations, including well-resourced communities with access to good schools, jobs, and health assets.

### How Zoning Affects Housing Supply and Affordability

According to Harvard's Joint Center for Housing Studies, overall housing production in the U.S. has lagged need for an unprecedented eight straight years,<sup>1</sup> contributing to a cumulative shortage of 1.6 million new homes.<sup>2</sup> Low- and middle-priced housing comprise virtually all of this shortfall. Many communities report a shortage of starter homes for purchase. Indeed, the new homes being built today are larger and more expensive than in past years.<sup>3</sup> There is also a scarcity of affordable apartment homes, particularly for renters with the lowest incomes, despite a recent overall increase in multifamily construction. In 2017, only 4 million rental units were affordable and available to the nation's 11 million renters earning less than 30% of area median income.<sup>4</sup>

Overly restrictive zoning is a significant driver of the national shortage of affordable homes, particularly in high-demand communities.<sup>5</sup> Zoning ordinances affect development costs and supply in various ways:

- Large minimum home and lot size requirements prevent home providers from building modest, single-family homes and drive up the cost of land associated with development.
- Restrictions on duplexes, triplexes, and accessory dwelling units inhibit the production of lower-cost homeownership and rental opportunities.
- Height and density restrictions impede the development of cost-efficient apartments and condominiums.
- High parking requirements necessitate that multifamily housing providers either encumber expensive land for cars or build high-cost, underground parking.
- Drawn-out, discretionary approval processes often increase capital costs, soft costs, and development timelines.
- Zoning ordinances that zone too little land for housing lead to a scarcity of affordable, buildable lots and higher land costs.
- Overly prescriptive design standards, and high permitting fees, further increase overall costs.

Such restrictions reduce how far nonprofit housing producers can stretch scarce federal and local resources and limit opportunities to locate needed homes in well-resourced communities. This has significant implications for our economy and health. The dearth of affordable homes in growing metropolitan areas can prevent workers from moving to good paying jobs. Economists Chang-Tai Hsieh and Enrico Moretti estimate that too little affordable housing in high producing cities is costing the U.S. economy about \$1.6 trillion a year in lost wages and productivity.<sup>6</sup> Other studies have found overly restrictive zoning widens income and wealth inequalities as well.<sup>7</sup>

<sup>1</sup> Joint Center for Housing Studies of Harvard University, [The State of the Nation's Housing](#), 2019.

<sup>2</sup> Jared Bernstein, Jim Parrott and Mark Zandi, "[The conundrum affordable housing poses for the nation](#)," *The Washington Post*, January 2, 2020.

<sup>3</sup> Between 1999–2011, only 22% were modest-sized, i.e. less than 1,800 square feet, down from an average of 32 percent. (Joint Center for Housing Studies of Harvard University, 2019.)

<sup>4</sup> National Low Income Housing Coalition, [The Gap: A Shortage of Affordable Rental Homes](#), 2019.

<sup>5</sup> Joseph Gyourko and Raven Molloy, [Regulation and Housing Supply](#), National Bureau of Economic Research, 2014. See also: John M. Quigley and Steven Raphael, [Regulation and the High Cost of Housing in California](#), *American Economic Review*, 2005.

<sup>6</sup> Chang-Tai Hsieh and Enrico Moretti, [Housing Constraints and Spatial Misallocation](#), 2015.

<sup>7</sup> See for example: Leigh Franke, "[The link between land-use restriction and growing inequality](#)," *Urban Wire* (blog), November 23, 2015..

By affecting the location and affordability of homes, excessive zoning restrictions also impact health. Too often, zoning restrictions confine affordable homes to locations that are heavily impacted by air pollution, noise, traffic, and other potential health hazards. In contrast, when zoning ordinances permit affordable homes in a diversity of settings, they can increase access to walkable, mixed-use communities with safe recreational opportunities and assets like grocery stores offering fresh produce. Unaffordable housing in any setting can also mean: less income for food and healthcare; unhealthy overcrowding; and greater frequency of moves, eviction, and foreclosure, all of which can elevate stress levels and depression.<sup>8</sup>

## A Potential Role for the Federal Government

A growing number of localities and states are modernizing local zoning codes to allow for a greater variety of housing types in more settings. But tight restrictions on housing remain commonplace, including in regions with significant job growth and an urgent need for affordable workforce housing. For example, a recent study found that it is illegal to build anything other than a detached single-family home on 75 percent of the residential land in many American cities.<sup>9</sup> Supplemental federal grants could act as incentives to encourage or support more states and localities to remove zoning barriers to affordable homes in a diversity of neighborhoods.

While states and localities hold the power to make local land use decisions, federal funding incentives can complement and accelerate local and state reforms. The recent creation of the multi-agency White House Council on Eliminating Regulatory Barriers to Affordable Housing presents an opportunity to explore a powerful incentive program—inclusive of transportation, infrastructure, parks, and school grants—to encourage more localities to update their zoning codes with an eye toward increasing affordability, especially for lower-income households. HUD could also help localities with funding for technical assistance for the often time-intensive process of modernizing older zoning codes with broad community participation.

A strong federal incentive program for zoning reform would keep the following principles in mind:

1. Localities and states should remain at the center of local land use decision-making.
2. No one zoning reform fits all, but localities can be encouraged to offer greater freedom and flexibility—in a diversity of neighborhoods—with permitted housing types, parking ratios, heights, densities, home sizes, lot sizes, and design features.
3. Most land use approvals should be handled administratively and within a defined, reasonable timeline, in concert with clear expectations set upfront through the zoning code, rather than subjecting development applications to an open-ended, case-by-case, discretionary review process.
4. Jurisdictions receiving funding incentives need to show that enacted reforms will produce more homes and meet local needs at a diversity of price points, inclusive of affordable homeownership.
5. Helpful housing regulations should not be thrown out with the bad. For example, it is important to protect energy-efficiency standards and healthy home requirements.

Federal incentives for local zoning reforms can help local Habitat affiliates and other housing providers do more with each public dollar, increase the supply of affordable homes, and provide affordable homes in a greater range of neighborhoods, including communities with access to good schools, jobs, and health assets.

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<sup>8</sup> Mary K. Cunningham, "[Reduce poverty by improving housing stability](#)," Urban Wire: Housing and Housing Finance, June 26, 2016.

<sup>9</sup> Emily Badger and Quoc Trung Bui, "[Cities Start to Question an American Ideal](#)," *The New York Times*, June 18, 2019.