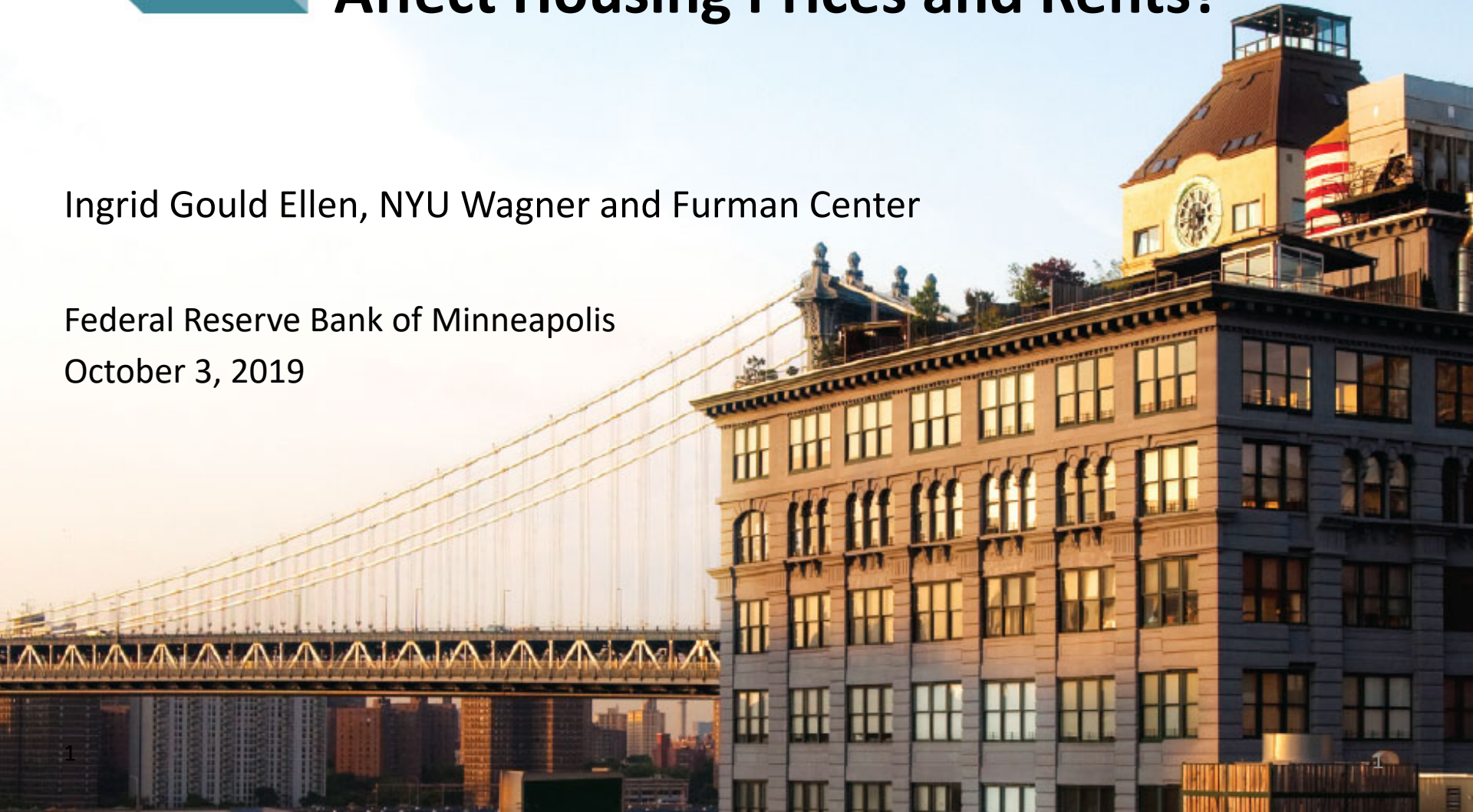


YIMBY vs NIMBY: How Do Supply Restrictions Affect Housing Prices and Rents?

Ingrid Gould Ellen, NYU Wagner and Furman Center

Federal Reserve Bank of Minneapolis

October 3, 2019



Not Just an Academic Debate

- Regulatory barriers
 - Appear to be growing more stringent on paper
 - Enforcement growing more consistent (Landis, 2017)
 - Process has become more complicated
 - More veto points
 - Multiple agencies
- Increasing community resistance/activism

From NIMBYism to Supply Skepticism

- Opposition to new development has long been expected from homeowners who benefit from higher housing prices (Fischel, 2001).

Homeowners fight back against proposed Littleton development off West Bowles Avenue

Developer wants to re-zone four acres of land



Copyright 2016 Scripps Media, Inc. All rights reserved. This material may not be published, broadcast, rewritten, or redistributed.

From NIMBYism to Supply Skepticism

- But opposition to new development now also comes from *renters* and affordable housing advocates
- They argue that additional market rate housing fails to make housing more affordable, and indeed may *increase* rents and prices.

From NIMBYism to Supply Skepticism

EAST HARLEM NYC REZONING

East Harlem rezoning faces mounting public opposition

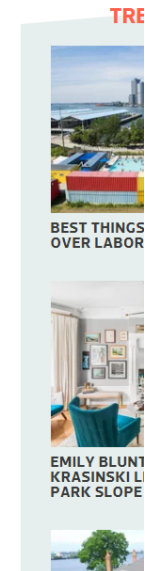
The plan received overwhelmingly negative feedback at a recent Planning Commission meeting

BY TANAY WAREKAR | AUG 24, 2017, 4:45PM EDT

TWEET SHARE PIN



Courtesy of Esra Realty



“Residents expressed concern the development would rapidly escalate rents and eventually displace them from the neighborhood.”

Even in Minneapolis...



YIMBY versus NIMBY

- YIMBY
 - New development will reduce prices and rents due to supply effect
 - Environmental benefits of growth in high-density areas
- Traditional NIMBY Arguments
 - Agree with YIMBY logic on prices, but argue growth will bring other harms
- Supply Skeptics
 - Weak: New development will do nothing to alleviate affordability
 - Strong: New development will exacerbate affordability, especially in area immediately surrounding new housing

Traditional NIMBY Arguments

- Infrastructure is inadequate to accommodate growth
- BUT...
- Need to recognize that housing will be constructed somewhere else, if not in this community
- Development may strain some infrastructure, but it may be less expensive to make infrastructure improvements in existing communities rather than in outlying areas.

Traditional NIMBY Arguments (cont.)

- Growth will lead to environmental degradation
- BUT...
- Again, need to recognize that housing will be constructed somewhere else, if not in this community
- Environmental costs are likely to be greater if growth is pushed out to periphery where people are more dependent on cars.

Traditional NIMBY Arguments (cont.)

- Growth will undermine community history/culture/character
- BUT...
- What culture are we preserving in white, affluent areas?
 - Arguments may differ in lower income communities of color
 - Government role in creating segregation and limiting investment
 - Lower-income communities are typically higher density
 - Neighborhoods may contain more immigrants/ethnic clusters
- History/character/culture are not necessarily erased by new development and higher density
- To combat segregation, we need to (gently) disturb some neighborhood fabrics

The Supply Skeptics' Main Arguments

1. Weak arguments

- New housing is luxury housing and won't affect prices/rents of average homes.
- Adding new homes will attract new demand and so will not reduce prices.
- Land is inherently limited.

2. Strong arguments

- Upzoning will simply invite land speculation.
- Adding new homes will make area more attractive due to amenity effect.

1. Luxury Housing Won't Affect My Rents

- Rather than having one unified housing market, cities have many housing submarkets, and increases in supply of high-end housing won't affect rents in lower-priced segments
- BUT...
- Submarkets are *connected*.
- Additions to the housing stock in one submarket can affect prices and rents in other submarkets
 - Migration chain
 - Filtering Up
 - Filtering Down



Empirical Evidence on Filtering

- Filtering Up
 - Somerville and Meyer (2003) find that units affordable to low-income households are more likely to filter up (or become unaffordable) in metro areas with more stringent restrictions on supply.
- Filtering Down
 - JCHS (2015) reports that most additions to the affordable rental stock between 2003 and 2013 were older homes that became more affordable.
 - Weicher, Eggers, and Moumen (2016) find that over half of units affordable to low-income renters in 2013 had filtered down from higher priced rentals or owner-occupied homes
 - Rosenthal (2014) shows that later occupants of new housing units typically have lower incomes

2. New Supply Will Only Induce Demand

- Additional supply will only induce more people to want to live in the city and therefore not lower prices/rents.
- BUT...
- Assumes perfectly elastic demand
 - Infinite substitutes
 - No constraints on the ability/willingness of households to move.
- Thus, while some new households may be drawn in as supply increases, prices/rents are unlikely to end up at the same level they would have reached absent any new supply.



Empirical Evidence on Demand Inducement

- Mast (2019) finds that two thirds of residents of new high-end units moved from the same metro, and that these relocating households open up housing opportunities in middle and low-income neighborhoods
- Allowing more supply appears to lead to lower prices, suggesting that new supply isn't completely absorbed by new demand
 - Jackson (2016); Zabel and Dalton (2011); Saks (2008); Ihlanfeldt (2007); Gyourko and Molloy (2015)

3. Land is inherently limited

- Housing is unique because it comes with a plot of land, and unlike other inputs, the supply of land is inherently limited.
- Relaxing supply restrictions can not create more land
- BUT...
- Land can be more used more/less intensively.

4. Upzoning Will Only Invite Speculation

- Allowing for more density will simply invite speculation and lead to higher prices and rents.
- BUT...
- While upzoning will surely increase the value of land, it will also allow for more housing, which over time, will lead to lower housing prices, even if land is more expensive.
- Upzoning may still be necessary, even if it needs to be accompanied by other policy reforms to trigger much new development.

5. New Homes Will Make Area More Attractive

- Construction of an attractive new building will increase prices locally (by improving the physical landscape, bringing new amenities to the neighborhood, and signaling that the neighborhood is improving).
- BUT...
- While market-rate housing might generate positive localized spillover effects, added supply will also help to absorb demand and dampen pressure on prices/rents.
- Limited empirical evidence until recently; challenging to estimate the spillover effects of new construction.



Empirical Evidence on Localized Spillovers

- Asquith, Mast, and Reed (2019) find that amenity effects are outweighed by supply effects, so average new apartment in low-income neighborhood reduces listed rents of properties within 250 meters of new building.
- Li (2019) finds that the construction of new high-rise buildings in New York City invites new retail amenities but still reduces rents/prices of existing properties within 500-feet of new buildings.

Gaps in Research

- More understanding of how, and the extent to which, additions to housing supply filter up or down in various submarkets and affect affordability.
- More research on effects of upzoning in different contexts.
- More research on neighborhood spillover effects of new construction in different contexts.
 - How does new development affect retail landscape, e.g., availability/affordability of grocery stores, laundromats, etc.?
- More research on the effects of specific regulations and the efficacy of state policies to encourage additional supply.

Call for a Balanced Approach

- Evidence suggests allowing new housing supply can alleviate pressures on prices and rents.
- *But relaxing restrictive regulations is not sufficient*
- Cities should aim for mix of housing
 - Economically diverse neighborhoods require a mix of housing types.
 - Building effective coalition to add supply requires that new housing is affordable to range of incomes.
- Adding supply will do little to address needs of the lowest income households.
- Finally, land is inherently limited, so housing costs are likely to go up in areas with growing demand, even absent restrictive regulations.

**NYU
Furman
Center**



Ingrid.ellen@nyu.edu

