

WRITTEN MATERIALS

Exclusionary Zoning: Its Effect on Racial Discrimination in the Housing Market

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This Saturday, the nation recognizes Juneteenth, which marks the day a Major General of the Union Army arrived in Galveston, Texas to enforce the Emancipation Proclamation, and free the last enslaved Black people in Texas from bondage. The day has evolved into a celebration of emancipation more generally, and while the country acknowledges the progress that has been made, it is imperative to not lose sight of the fact that we still have much work to do to address the vestiges of slavery and historic discrimination. Indeed, policies and practices exist today that are seemingly non-discriminatory on their face but still negatively affect many families of color, especially Black families. Many of these policies and practices have long-term impacts—from education to employment to business ownership to housing—that must be addressed.

One area that is particularly important for economic well-being and wealth accumulation is housing. Families who can purchase their own home in the neighborhood of their choice at a fair price and see the value of their home grow over time do better economically in the long run. But numerous policies have systemically discriminated against Black families who wish to pursue that path. This blog focuses on one of these policies: exclusionary zoning laws, which have played a role in causing racial disparities in the housing market.

Background

Exclusionary zoning laws place restrictions on the types of homes that can be built in a particular neighborhood. Common examples include minimum lot size requirements, minimum square footage requirements, prohibitions on multi-family homes, and limits on the height of buildings. The origins of such laws date back to the nineteenth century, as many cities were concerned about fire hazards as well as light-and-air regulations. In the subsequent

decades, some zoning laws have been used to discriminate against people of color and to maintain property prices in suburban and, more recently, urban neighborhoods.

After the United States Supreme Court banned the use of explicit race-based zoning in *Buchanan v. Warley* (1917), city planners remained capable of segregating via indirect methods. For example, St. Louis's 1919 zoning laws were designed to preserve homes in areas that were unaffordable to most Black families, and the city's zoning commission would change an area's zoning designation from residential to industrial if too many Black families moved in. Similarly, research on Seattle's 1923 zoning laws shows that areas in which Black or Chinese-American families lived were disproportionately likely to receive commercial zoning.

Economic Theory and Evidence

Exclusionary zoning laws enact barriers to entry that constrain housing supply, which, all else equal, translate into an equilibrium with more expensive housing and fewer homes being built. Consistent with theory, the empirical literature finds a relationship between restrictive land use regulations and higher housing prices. For example, a study in 2005 finds that prices of Manhattan condominiums are 50 percent higher than they would be without zoning restrictions.

Exclusionary zoning laws have a profound impact on social welfare because *where* a family lives matters. Using data that cover virtually the entire U.S. population from 1989 to 2015, researchers have shown that neighborhoods can have significant causal effects on children's long-term outcomes, including their earnings. Because exclusionary zoning rules drive up housing prices, poorer families are kept out of wealthier, high-opportunity neighborhoods. This, in turn, leads to worse outcomes for children, including lower standardized test scores, and greater social inequalities over time.

Research has connected exclusionary zoning to racial segregation, creating greater disparities in measurable outcomes. These disparities are present today in many forms. For instance, many lower-income, predominantly minority neighborhoods in cities have become "heat islands"—experiencing significantly higher temperatures than other neighborhoods in the same metropolitan area because of factors such as fewer trees and more concrete buildings and parking lots. Living on a heat island doesn't just negatively impact health, it also impacts the ability to learn and develop human capital. Research shows that elevated temperatures negatively impact short-run cognitive performance, working memory, and stamina, such that an increase in the number of hot school days decreases the educational attainment of students.

Restrictions in housing supply also limit labor mobility, because workers cannot afford to move to higher productivity cities that have high housing prices. This leads workers to remain in lower productivity places. One study finds that this misallocation of labor has led to a significant decrease in the U.S. economic growth rate since the 1960s; another study finds that this misallocation could cost up to 2 percent of GDP.

Finally, exclusionary zoning contributes to the racial wealth gap. If Black families are excluded from higher priced neighborhoods or if neighborhoods where Black families live are zoned into being less valuable, the homes purchased by Black families will not be worth as much over time as those of white families. In the long run, this diminishes wealth not only for the generation purchasing the home, but for descendants who receive a lesser inheritance. Indeed, housing likely explains more than 30 percent of the Black-white racial wealth gap.

A New Path Forward

The American Jobs Plan takes important steps to eliminate exclusionary zoning. Specifically, the Unlocking Possibilities Program within the American Jobs Plan is a \$5 billion competitive grant program that incentivizes reform of exclusionary zoning. The program awards flexible and attractive funding to jurisdictions that take concrete steps to eliminate needless barriers to produce affordable housing and expand housing choices for people with low or moderate incomes. It supports bottom-up community engagement that would help communities identify the most powerful levers to produce more affordable housing and incentivizes new land-use and zoning policies to remove those barriers.

The goal of this program is to address persistent inequities in the American housing market. The benefits could be substantial—increased access to affordable housing so that previously excluded Americans can move to areas with greater opportunity, and increased opportunities for Black families to build wealth via home ownership. This is but one proposed program of many from the Biden-Harris Administration, which is taking a whole-of-government approach to addressing our country's long history of racial injustice.