‘Build More Housing’ Is No Match for Inequality

A new analysis finds that liberalizing zoning rules and building more won’t solve the urban affordability crisis, and could exacerbate it.

By Richard Florida
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Lucy Nicholson/Reuters

Build more.

That’s what a growing number of urbanists hail as the solution to the surging home prices and stark inequality of America’s superstar cities and tech hubs. They want to relax regulations that limit the supply of housing in already expensive cities, and start building taller and denser.

It's supply and demand at work, they argue. Prices–in this case, housing prices–rise when supply is limited. Add more supply, and housing prices fall, making housing more affordable for more people, spurring more and better economic growth in the process.

A new paper by two leading economic geographers suggests this argument is simply too good to be true. Titled "Housing, Urban Growth and Inequalities" and forthcoming in the journal *Urban Studies,* it's written by Andrés Rodríguez-Pose of the London School of Economics (LSE) and Michael Storper, who divides his time among the LSE, UCLA, and Sciences Po in Paris. According to Storper and Rodríguez-Pose, the notion that an insufficient supply of housing is a main cause of urban economic problems is based on a number of faulty premises. They say the effect of supply has been blown far out of proportion.

They agree that housing is *part of* the problem: "Housing market failures can imperil local economic growth and generate problems such as segregation, long commute times, deteriorating quality of life, homelessness, and barriers to social mobility for certain populations," they write. But housing policy, and zoning restrictions in particular, are certainly not the be-all and end-all of urban problems. Upzoning expensive cities is no match for the deep divides within–and especially between–cities, and is wholly insufficient to remedy them.

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“Housing is an area where the law of unintended consequences is most powerful,” Storper recently told *Planning Report*. “The idea that upzoning will cause housing affordability to trickle down within our metropolis, while also setting up Los Angeles and San Francisco as the new golden land for people in less prosperous regions, is just a lot to promise–and it’s based on a narrative of housing as opportunity that is deeply flawed.” And as Rodríguez-Pose told me via email: “Upzoning is far from the progressive policy tool it has been sold to be. It mainly leads to building high-end housing in desirable locations.”

Rodríguez-Pose and Storper question several pieces of evidence that stand at the heart of this market-urbanist view, a perspective they dub “housing as opportunity.” Whereas some urban economists suggest a close relationship between housing supply and prices (with places that add supply having lower prices), Rodríguez-Pose and Storper find the relationship to be weak.

Likewise, some market urbanists point to an association between city population size and/or density and economic growth. But Rodríguez-Pose and Storper argue that this too falls away under close scrutiny–the link between city population in 2000 and subsequent economic growth from 2000 to 2016 is weak to “non-existent,” on their analysis.

For Storper and Rodríguez-Pose, the rising spatial inequality between cities and metro areas stems from different kinds of economies that distinguish different kinds of cities, not from differences in housing costs. Or as they put it, “the basic motors of all these features of the economy are the current geography of employment, wages and skills.”

The economies and talent bases of cities have diverged over time. Expensive cities have much larger clusters of leading-edge tech and knowledge industries and of highly educated, skilled talent. It’s this, rather than differences in housing prices, that is behind growing spatial inequality.

“The affordability crisis within major urban areas is real,” they write, “but it is due less to over-regulation of housing markets than to the underlying wage and income inequalities, and a sharp increase in the value of central locations within metro areas, as employment and amenities concentrate in these places.”

A key factor here is the growing divide between highly-paid techies and knowledge workers and much lower-paid people who work in routine service jobs. These service workers end up getting the short end of the stick, spending much more of their income on housing in expensive cities. “Under these circumstances moving to big cities provides no immediate benefits for workers without college education,” Rodríguez-Pose and Storper write.

Upzoning does little to change this fundamental imbalance. Because land in superstar cities and tech hubs is so expensive to begin with, upzoning tends to create even more expensive condominium towers. “While building more affordable housing in core agglomerations would accommodate more people,” the authors note, “the collapse of the urban wage premium for less-educated workers means that the extra housing would mostly attract additional skilled workers.”

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Opportunities for improved wages in core areas have stagnated, and the “ladder has shrunk.” Therefore, the decline in interregional migration can be attributed to many factors, including the new geography of skills and wages. But housing restrictions in prosperous areas wouldn’t top the list. And upzoning ends up fueling, not relieving, economic and spatial inequality. As Rodríguez-Pose told me: “Income inequality is greater within our cities than across our regions. Upzoning will only exacerbate this.”

Solving the economic and geographic divisions of America and other advanced countries is a task that goes far beyond local housing policy. “Planning deregulation and housing costs are neither going to solve the problem of areas lagging behind, nor are they likely to have an impact on the economic development of dynamic cities,” Rodríguez-Pose and Storper write. Worse, they caution, “an excessive focus on these issues at the expense of serious and sustainable development strategies, can fuel economic, social and political distress and anger in declining and lagging areas that can threaten the very foundations on which economic activity, both in less developed and more prosperous areas, has been erected in recent decades."

The two are not the only scholars to raise such concerns. Economist Tyler Cowen agrees that the ultimate beneficiaries from zoning and building deregulation are landlords and developers. As he puts it, "the gains from removing taxes/restrictions on building largely will be captured by landowners … More stuff will be built, urban output will expand, land still will be the scarce factor, and by the end of the process rents still will be high."And a recent study by Yonah Freemark found that upzoning in Chicago led to higher, not lower, housing prices, while having no discernible impact on local housing supply.

When I tweeted Storper's comments in *Planning Report,* I found myself on the other end of a seemingly endless barrage of dismissive and derogatory responses. That makes little sense: The paper is an important cautionary tale. The authors are *not* saying that we should not build more housing. They are simply saying that doing so won't magically solve economic and spatial inequality, because both are deeply rooted in the very nature of the geographically clustered and concentrated knowledge economy.

CityLab editorial fellow Nicole Javorsky contributed research and editorial assistance to this article.

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