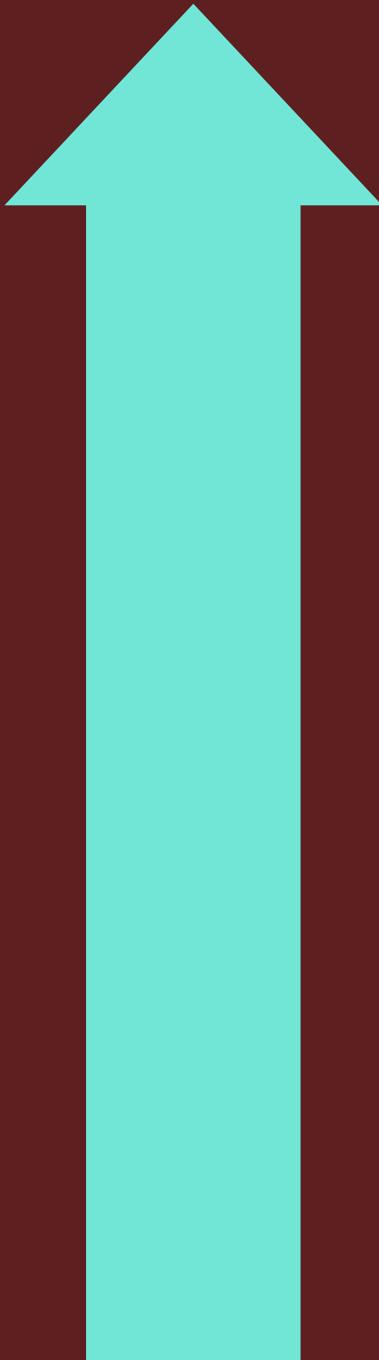


# UPZONING



**DOES IT MAKE HOUSING MORE  
OR LESS AFFORDABLE?**

# Upzoning

by Jodie Walker

**Affordable housing is an issue many cities are currently facing. Upzoning is a potential solution to the issue, however prominent geographer Michael Storper suggests that upzoning actually makes housing more expensive.**

**In this report, Secret Agent will take a deeper look into upzoning and how it has been impacting property markets in various cities of the world. We will consider the research by Storper in order to discuss the case for and against upzoning.**

## **WHAT IS UPZONING?**

Cities have been expanding at record rates as a result of urbanisation and a growing population. The demand for jobs in city centres is high, as is the demand for housing. This has created an affordability issue in urban areas. Housing affordability isn't a problem unique to the big cities like New York, Paris and Tokyo; it is also common amongst places such as Dublin, Seattle and Melbourne. New supply can't keep up with demand in these areas and there is a need to increase the supply of housing whilst minimising costs.

Both rents and house prices are reaching levels that are unattainable for many. The migration of people into cities is slowing in comparison to rates from earlier this decade. Many people can no longer live near their places of work. This has given rise to a school of thought known as "housing as opportunity." It argues that the affordability issues faced by many of the world's cities is due to restrictive zoning and the associated rules. The best way to solve the affordability crisis is to increase the supply of housing by removing these restrictions.

The process in which zoning restrictions and building codes are removed to allow for higher density housing is called upzoning. Upzoning as a definition is simple. However, the deregulation of land zoning has consequences that are much more complicated to predict.

## **THE CASE FOR UPZONING**

The main benefit of upzoning is the increased supply of housing in highly desirable urban areas. One of the biggest issues faced by cities is a lack of housing. More supply would allow more people to live in these areas which in turn would help that city to continue to grow.



Designs for the Green Spine development in Melbourne. The increasing supply of apartments in Melbourne help the city cope with its growing population. (Image from abc.net.au)

It has been proposed that making housing easier to build by removing restrictions would allow for taller buildings which contain more apartments. This would flow on to increased supply and eventually falling prices.

**In addition to increasing supply, deregulating zoning would remove the zoning tax that seems to be built into the price of property.**

Housing is expensive to produce and this is partly due to zoning regulations. A study by the RBA (2018) found that in Australian cities, zoning restrictions as well as increased demand, have resulted in the significant growth of property prices above what their physical structure is actually worth. Similarly, the gap between apartment sale prices and construction costs is due to zoning. For example, it is estimated that zoning restrictions increase the cost of a detached house in Sydney by 73% above the costs required to provide it (the structure and land). In Melbourne this zoning price increase above marginal cost is 69%. This effect is apparent in other cities across the world to a different extent. It seems to be larger in cities with tighter restrictions and barely existent in places where there are no restrictions. (RBA, 2018)

If an area has lots of amenity, including jobs, then creating more high density homes is the only way to allow for more people to live in that area. This would continue to improve the economy of that city. If supply keeps up with demand, property prices and rents rise more slowly which means more people can afford to live there. Less people are also displaced. The housing as opportunity consensus claims that upzoning will increase affordability for lower income people through increased supply. (TPR, 2019) This will make more housing available to every body, whether they have a high paying job or not, thus reducing inequality and segmentation in the housing market. In regions where zoning restrictions apply, their removal is the first step in enabling this to happen.

**THE CASE AGAINST UPZONING**

The impacts of upzoning may benefit the city in the long term, but in the short term it means disruption to existing residents and a lot of uncertainty. Reduced parking requirements for individual apartments results in more people fighting over limited existing parking spaces. More people means that there is more congestion and noise which is something that needs to be dealt with on a daily basis. New developments change the scale of what exists in that area. If they are not designed well, they can also change the entire ambience. Whilst upzoning might be positive for certain demographics, it can be a negative experience for those already living there.

Upzoning on its own is also unlikely to help a city grow. According to Michael Storper (2019), the reduced migration of people into cities isn't due to lack of supply or an affordability issue – it's due to the types of jobs being created there and the skills required for those jobs. People are still moving into the city. What is changing is the types of people moving in and how they are accommodated. They are typically younger, highly skilled and are willing to live in smaller apartments. This is intensifying the income inequality between regions within the same country. Instead of a mix of jobs being located across the country, the high paying, high skilled jobs are concentrating in the city centres.

“The affordability crisis within major urban areas is real, 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.” (Storper, 2019)

Upzoning to allow for more housing won't solve the affordability issue. It could in fact make it worse.

**In his review, Storper looked at the relationship between land area, population migration and house prices. It was concluded that there is no consistent relationship between those three aspects of a city.**

Instead, what drives growth in house prices is the distribution of income across cities. For example, cities like San Francisco have high paying jobs that attract skilled workers. House prices were driven up because they had the “fundamental economic forces that causes the skilled to want to be in the big metropolitan areas today.” (TPR, 2019) Skilled workers are still moving into prosperous cities because the payoff in terms of much higher incomes compared to what they would get in other areas is so great. Upzoning might increase supply but it would simply give them more options. Blue collar workers and low income people still won't be able to afford housing in these areas.

Increased supply could have downstream effects on lagging regions but this type of trickle down effect is strongly argued against by Storper. It is often thought that prosperous buyers moving into new supply would free up older apartments for those lower down the income distribution ladder. Often, this is not what happens. Those older style apartments are kept as investment properties, or they free up supply for others within the knowledge based economy to take up that apartment. The

added supply means that new skilled workers come in from other big cities and push up incomes at the top end of the pay cycle. This then feeds back into the property market.

This is reinforced by the fact that those who live in the city are not moving out to the suburbs at the same age as what previous generations did. It is thought that this could be due to people spending more time focusing on building their career before settling down, and also the longer time required to commute thanks to increased congestion. (Autor and Fournier, 2019)

**Living close to work is more valuable than what it has been in the past.**

**This has resulted in competition for housing in the city that is created by skilled workers since the older workers are not moving out to make room for the younger ones.**

Simply providing more supply by loosening zoning restrictions would not address housing affordability for those living in the suburbs. Further, it would not make those areas more desirable to blue collar or low income workers, especially if they couldn't get work there due to not having the right skills. Upzoning would simply enable and attract more skilled workers to live close to their jobs.

For example, the tech boom in Seattle led to huge pressure for re-zoning sections of the housing market. Limits on the number of units built on a section of land were removed, as were height restrictions. For many areas the requirement to provide parking on site was also removed. Upzoning in Seattle aimed to create more affordable housing for everybody. Instead, high paid tech workers who were willing to pay expensive rents for small apartments moved into the area. Families and less affluent people were forced to move out. Upzoning created more supply but it didn't make housing more affordable. Despite the continuous construction of new units, Seattle saw the fastest growth in rents between 2010 and 2015 than any other place in the USA. (Pitts, 2017)

Increased density through the construction of taller buildings doesn't necessarily contribute to cheaper houses because it isn't feasible to sell them at a cheaper rate. It would seem like if you have a plot of land and built 50 apartments on it you could sell each of these cheaper than what you would sell two houses on the same block of land. However it doesn't work like this. Apartment buildings that are too tall don't translate into more affordable housing because they simply cost a lot to build and so have to be sold at a certain price in order to make

them worthwhile. As you build higher, there are increased demands from an engineering perspective and additional requirements for the building. These include complicated lift systems, fire prevention and escapes, water pressurisation and supply as well as heating and cooling systems. They all contribute to additional costs associated with construction of high rise apartment buildings. There is the need to use floor space for the structural core of the building. This puts restrictions on the actual floor plans that the apartments can have. Further, building in more congested areas also means that the construction takes more time. These added costs equate to higher sale prices.

An analysis of upzoning in Chicago neighbourhoods found that upzoning had the opposite effect of what was expected. (Freemark, 2019) The study compared the effects of two sets of zoning reforms which encouraged denser development, on property values between 2010 and 2018. The findings showed that upzoning did not affect housing supply, and instead of reducing prices it resulted in rising house prices in the areas where building sizes increased. It was thought that upzoning increased prices by increasing the value of the land. If a parcel of land has the ability to be turned into a tower of multiple apartments, it is more valueable to the owner than what it is if zoning restrictions mean that the land can only have a single house on it.

**In the short term, upzoning increases the value of the land and the property that sits on it, but doesn't actually increase supply until the land is developed. Upzoning itself doesn't mean that land will be developed and that supply will necessarily increase.**

In their study, the RBA noted that although zoning does play a role in increasing property prices in our cities, simply removing it may not cause prices to fall by the same amount. Physical land cost in cities such as Sydney is expensive because it is scarce. Even if zoning was relaxed, property would still remain expensive. Upzoning in Australia would have a varied impact on the supply and cost of housing in different areas depending on how expensive the land was to begin with. In areas where land is limited (usually due to constraints such as CBD regions or coastal areas), upzoning might not reduce prices at all. For example, Fishermans Bend in Melbourne went through a big rezoning to allow for residential development without mandatory height limits and as a result the cost of land in this precinct doubled. (Johanson, 2012) This area is constrained by the Yarra River and already popular suburb of Port Melbourne. The end result might be that the finished product of a swath of brand new apartments may

actually stimulate higher prices than reduce them, if what is suggested above is correct.

**Overall, normal supply and demand principals do not always apply to housing markets. An increase in supply doesn't always ease demand enough to decrease price.**

This is because there are so many other factors influencing house prices. These include occupation patterns, migration, immigration and other barriers. Supply policies as well as the structure of job and incomes all have a role to play in determining house prices in cities. (Storper, 2019)

## CONCLUSION

Ensuring cities continue to grow is important. This means that they need to have jobs available and enough housing. Upzoning is a potential way to enable more growth, especially in areas where land is limited. It has been thought that upzoning could help create more affordable housing by increasing supply. However, this hasn't been the case in cities where upzoning has taken place such as Seattle, Chicago and Melbourne. The impact upzoning may have on property prices is complicated.

Often, ideas that become the dogma of the day turn out to produce the opposite effect to what was expected once a generation has passed and the results can be observed. The best intentions may be in play, however the complexity of the human system is so vast that many solutions are likely to be bad ideas on reflection. There are no magic bullets and many things will need to be attempted to ensure that cities remain places for all walks of life with the understanding that negative consequences will be unavoidable in some way or another. ♦

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# SECRET

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