

THE WALL STREET JOURNAL.

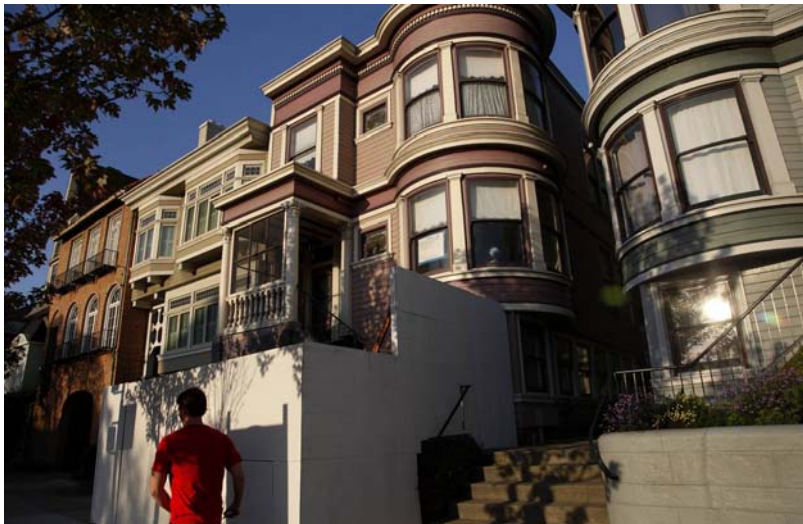
This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <http://www.djreprints.com>.

<http://www.wsj.com/articles/as-land-use-rule-rise-economic-mobility-slows-research-says-1476813771>

U.S.

As Land-Use Rule Rise, Economic Mobility Slows, Research Says

Trend of income gap between poorest and richest states steadily closing is upended by growth in regulations



Houses in a historic neighborhood of San Francisco, Calif. Many of the cities with the stiffest demand for housing, and thus the highest prices, are on the Atlantic and Pacific coasts, like San Francisco. They also tend to be the cities that impose the strictest rules on land use. *PHOTO: PRESTON GANNAWAY FOR THE WALL STREET JOURNAL*

By **LAURA KUSISTO**

Updated Oct. 18, 2016 2:12 p.m. ET

Developer Patrick Kennedy wants to build apartments for middle-class families near San Francisco's Financial District, but he is struggling to win the city's approval. The problem: in one spot the building's courtyard is 5 feet too narrow.

Mr. Kennedy said his efforts constantly run up against such obstacles, which he said drive up the cost of construction and make it nearly impossible to build anything but luxury housing in one of the nation's most expensive markets.

The courtyard requirement in the city's planning code is designed to ensure units have sufficient light and air circulation and that the property offers usable outdoor space. Mr. Kennedy said it would force him to eliminate 16 bedrooms from apartments priced about 30% below market rate.

Such requirements are pushing out all but the very rich and creating a kind of economic segregation, he said. "There are a lot of ways you can have modern-day Jim Crow through zoning," he said.

In this year's election, candidates have focused blame for rising income inequality on broad economic forces, from globalization to the decline of the American manufacturing base. But a growing body of research suggests a more ordinary factor: the price of the average single-family home for sale, from Fairfield, Conn., to Portland, Ore.

According to research by Daniel Shoag, an associate professor of public policy at Harvard University, and Peter Ganong, a postdoctoral fellow at the National Bureau of Economic Research, a decadeslong trend in which the income gap between the poorest and richest states steadily closed has been upended by growth in land-use regulations.

Moving to a wealthier area in search of job opportunities has historically been a way to promote economic equality, allowing workers to pursue higher-paying jobs elsewhere. But those wage gains lose their appeal if they are eaten up by higher housing costs. The result: More people stay put and lose out on potential higher incomes.

Many of the cities with the stiffest demand for housing, and thus the highest prices, are on the Atlantic and Pacific coasts. They also tend to be the cities that impose the strictest rules on land use.

Messrs. Shoag and Ganong looked at mentions of "land-use" in appeals-court cases and found the number of references began rising sharply around 1970, with some states seeing a much larger increase than others. For example, the share of cases mentioning land use for New York rose 265% between 1950 and 2010 and 644% in California during the same period. By contrast, it increased by only 80% in Alabama.

The rules generally are intended to preserve the historic charm of neighborhoods, ensure sunlight and fresh air can reach the streets, and limit congestion on sidewalks, streets and public transportation. But while such efforts are well intentioned, they are

having an unintended side effect: increasing social stratification between wealthier and poorer areas.

Average incomes in a poorer state such as Alabama, for example, rose 73% in the decade starting in 1950, compared with 53% in a wealthier state like New York, according to Mr. Shoag. In contrast, during the 2000s average incomes in New York and Alabama grew at virtually the same pace—38%—increasing the wealth gap between the two places.

During that time, New York state saw inward migration rates fall off. In 1950, its population was growing by 13% annually, compared with 7% in Alabama. Between 2000 and 2010, the pattern reversed: Population in Alabama grew roughly 7% compared with only 2% in New York, Mr. Shoag said.

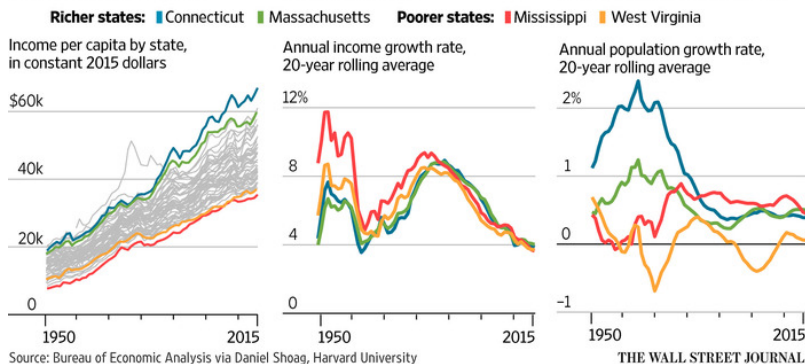
End of an Era

A decadeslong trend in which the wealth gap between the poorest and the wealthiest American states was steadily closing has been upended by the rise of land-use regulations.

Personal income has grown throughout the U.S., but states like Mississippi and W. Virginia lag behind the average...

...incomes in those poorer states used to grow faster than in rich states, but that is no longer the case...

...conversely, richer states used to have faster population growth than poorer states, which is also no longer true.



The typical home in New York in 1970 cost 4.5 times as much as the income per capita, while a home in Alabama cost about four times what a typical family made. By 2010, that gap had widened significantly, with a home in New York costing six times what a typical family makes and one in Alabama costing roughly 3.5 times as much.

“There are traditionally two ways to change your fate—get an education or move to a higher-wage part of the country,” Mr. Shoag said. “The second channel isn’t really available because the prices make that a bad deal.”

Similarly, research by Issi Romem, chief economist at BuildZoom, a website for contractors, has found a divide between expansive cities that are keeping pace with housing demand and those that are failing to expand and seeing prices rise dramatically.

The developed residential area in Atlanta, for example, grew by 208% from 1980 to 2010 and real home values grew by 14%. In contrast, in the San Francisco-San Jose area, developed residential land grew by just 30%, while homes values grew by 188%.

Data from home-price tracker Zillow show that wealthier areas are doing a poor job of remedying the imbalances. San Francisco and New York City, for example, built just one

unit for every four adults who moved there between 2010 and 2014. San Diego added 15 adults for every unit of housing.

While it is likely the U.S. as a whole would benefit from making it easier for lower-income residents to move to wealthier cities, that doesn't mean wealthier cities like San Francisco and New York would be better off. Building large amounts of new housing threatens to destroy the distinct housing stock that has helped make these cities appealing in the first place.

"Most of those regulations aren't just crazy. They're there to maintain a sense of identity that people care about," said Vishaan Chakrabarti, founder of Practice for Architecture & Urbanism, a New York architecture firm.

New York and San Francisco also are partly bounded by water, making it difficult to continue building housing at a rapid clip.

Mr. Kennedy said he doesn't plan to back down on the courtyard design and plans to continue his fight with the city.

"The Planning Department is working with the developer to help them determine a design that will allow for an increased unit count, yet is also compatible with the neighborhood in which it is located," a spokeswoman said.

Write to Laura Kusisto at laura.kusisto@wsj.com

Copyright 2014 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. Distribution and use of this material are governed by our Subscriber Agreement and by copyright law. For non-personal use or to order multiple copies, please contact Dow Jones Reprints at 1-800-843-0008 or visit www.djreprints.com.