Housing Supply Restrictions and the Boston Economy

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Housing Quantity and Price in the Boston Metropolitan Area since 1980

![Graph showing housing quantity and price trends from 1980 to 2000. The graph displays two lines: one for price/price in 1980 and another for permits/permits 1980. The y-axis represents the price or permits, while the x-axis represents the years from 1980 to 2000.]
Regulation vs. Land Area as a Barrier to New Development

- One extra acre per lot led to 38 percent fewer permits between 1980 and 2002; extra regulations depress development by 10 percent each (GSW).

- “The median lot size for new single-family houses was 0.91 acres, up from 0.76 between 1990 and 1998” (Jakabovics).

- Land densities are often not particularly high: there are 27 localities in greater Boston with less than one home for every two acres.
  - These allow fewer than 30 units per year.
More Density, More New Housing

![Graph showing relationship between log housing density 1980 and total permits 1980-2002 per acre.](image)
The Economic Consequences of Restricting Housing Supply

- No Homes, No People, No Jobs
- Restricted Supply Means Volatile Housing Prices
- Firms Eventually Do Leave High-Cost Areas and Wages Eventually Do Fall
- High Prices Change the Character of the City
Employment Growth and Permits in the 1990s

Employment Growth

Permits in the 1990s

Graph showing the relationship between employment growth and permits in the 1990s.
Why is Population Declining in Greater Boston?

- Some claim this is a sign of economic decline or social exclusion.
- But these are both demand factors.
- If demand was falling, median house prices would not have risen from $365,000 in mid-2003 to $419,500 in mid-2005.
- Therefore, this is a supply problem.
- Without new units, places loses people
  - Housing depreciation and fewer people per unit
  - Permits/Housing Stock has to be .42 percent per year
Population Growth and Permits in Massachusetts’ Counties since 2000

Annual Population Growth 2000-2

Annual Permits 2000-2002
Limited Supply Leads to Volatility
Supply Elasticity and Price Volatility

Price

Number of Homes

Rise in Demand

MA Supply

Atlanta Supply
Price Volatility and Supply Across the U.S.

![Graph showing housing price volatility against annual permits per 1980 housing stock across the U.S.]
Why Does Volatility Matter?

- Net wealth changes rapidly, which can have effects on consumption.

- Related industries, like banking, may be buffeted by housing price shocks.

- In particular, do not judge the impact of housing restrictions by looking at today’s price – mean reversion is extremely strong.
Price Growth in the 1980s and 1990s

Housing Price Growth in the 80s

Price Growth in the 90s
Mean Reversion
(Glaeser and Gyourko, forthcoming)

Relative to region trends and national prices:

- For every dollar increase in prices over five years, prices fall by 33 cents over the next five years.
- About one-half of this is related to declining incomes in high-cost areas.
- In “red states,” the other half comes from new supply.
Supply Restrictions and Income

- A productivity shock to a region will push up income and housing prices.
  - Using oil and tech shocks, we estimate $1 of wage increases pushes up prices by $6.50.
- Firms do seem, however, to be able to eventually leave high-cost regions.
- In a recent *Boston Globe* survey, 55 percent of the state’s CEOs named the high cost of living as the biggest economic challenge facing the state.
Price Growth in the 1980s and Income Decline 1990-1995
Income and House Prices
(Glaeser and Gyourko, forthcoming)

Relative to area trends and national controls:

- If prices go up in one five-year period by $50,000, incomes drop by $1,500 during the next five-year period.
- Employment drops by five percent with that same increase.
- This does not necessarily mean that residents of greater Boston will become poorer.
- Rather, differences between wages in Boston and wages in other regions are likely to shrink over time.
Housing Supply and the Character of Greater Boston

- Restricting housing supply ensures that only wealthier people can afford to live in the region.
  - But it does not appear to make the region older or less inclusive of outsiders.
- This is easiest to see with the region’s skill base.
- High skill levels are unlikely to hurt economic growth, but they do lead to less economic diversity.
Fewer Permits → A Boutique City
(Higher Cost, Larger Cities)
The Economic Consequences of Housing Restrictions

- A smaller economy with volatile housing prices catering to elites.
- Wages and employment do eventually decline, relative to trends.
- The biggest economic losses are incurred by outsiders and the nation.
- The country loses when its most productive regions make it much harder for people and firms to take advantage of that productivity.