

Title

Research Roundup: The Effect of Market-Rate Development on Neighborhood Rents

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<https://escholarship.org/uc/item/5d00z61m>

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Publication Date

2021-02-17



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RESEARCH ROUNDUP

The Effect of Market-Rate Development on Neighborhood Rents

February 2021



UCLA The Effects of Market Rate Housing on Neighborhood Rents

Key Takeaways

- » Researchers have long known that building new market-rate housing helps stabilize housing prices at the metro area level, but until recently it hasn't been possible to empirically determine the impact of market-rate development on buildings in their immediate vicinity. The question of neighborhood-level impacts of market-rate development has been hotly debated but under-studied.
- » Taking advantage of improved data sources and methods, researchers in the past two years have released six working papers on the impact of new market-rate development on neighborhood rents. Five find that market-rate housing makes nearby housing more affordable across the income distribution of rental units, and one finds mixed results.
- » These findings point to local benefits from market-rate development, but they should not be interpreted as an endorsement of market-rate development regardless of the project or neighborhood context. Housing production should still be prioritized in higher-resource communities where the risk of displacement and other potential harms is lower, and complementary policies such as tenant protections and direct public investments remain essential. Nonetheless, the neighborhood-level benefits of market-rate development are promising and indicate an important role for both market and non-market solutions to the housing crisis.

and readers should bear that in mind, the importance and near-unanimity of their findings makes discussing them worthwhile.

Why this flurry of new research now? Questions about the highly localized impacts of new development have traditionally been hard to answer for two reasons. The first and bigger problem was a lack of building-level data. Large, publicly available datasets that include rents, such as the U.S. Census Bureau’s American Community Survey and American Housing Survey, provide information about anonymized individual households (e.g., the rent paid by a Black family) or about geographic areas (e.g., the median rent of a census tract in San Francisco). Estimating the effect of new development, however, requires time-series data about individual buildings near one another. Census datasets do not offer this level of granularity.

The second obstacle to research of this sort was the problem of statistically disentangling the two-way relationship between supply and prices. Answering the question of how new housing affects nearby prices requires controlling for the fact that prices nearby can affect supply: Developers are more likely to build in places where rents are rising. Failure to control for this, and naively comparing places where buildings rise to places where they don’t, will misleadingly lead to conclusions that new buildings lead to higher rents.

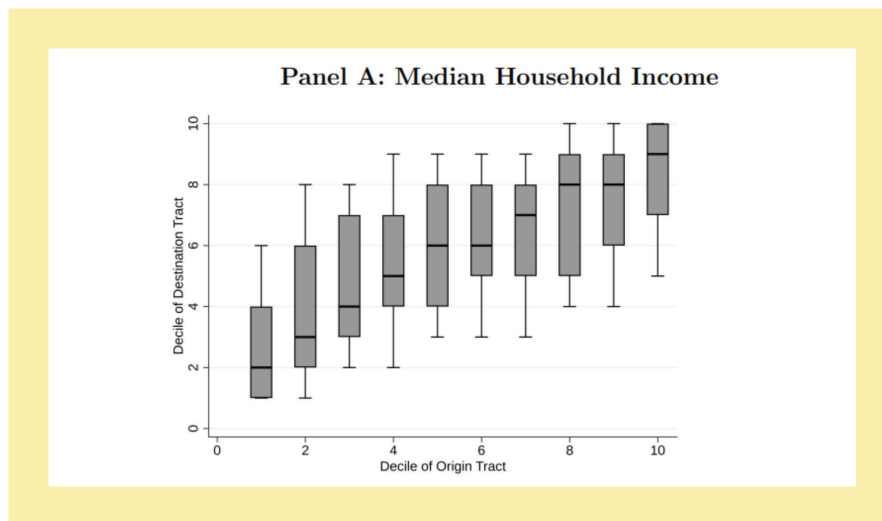
The working papers we discuss below are made possible by newly available datasets that offer building-level rents over time, and sometimes offer a glimpse at who lives in those buildings as well. Researchers have been able to combine these datasets with various approaches to statistical analysis that help control for reverse causality.

Below, we offer a review of each working paper, and discuss their implications.

available. Mast estimates that building 100 new market-rate units leads to 45 to 70 and 17 to 39 people moving out of below-median- and bottom-quintile-income tracts, respectively, creating slack in the lower-end housing market. Almost all of this effect takes place within five years.

A possible objection to this finding is that migration chains can only open up cheaper housing for existing residents if the new residents come from the same metro area. If all or most arrive from elsewhere, as some development skeptics worry they will, then the affordability benefits will accrue in those other cities, not where the new housing is built. There are both empirical and theoretical reasons to think this concern is overblown. Empirically, most moves are within regions, not across them. In fact, in 11 cities Mast finds that 67% of residents come from the same metro area. Most likely the remaining 33% would have moved to the new city in any case: These were people who could afford to rent in a new market-rate unit, which suggests that if the new building didn't exist they could easily find some other, existing unit in their price range. Indeed, in the absence of new housing they would have taken up residence in an older, more affordable home instead. For this not to be the case, new residents would have to move to new regions for no reason other than that new housing was built. It would be the new buildings — not jobs or family considerations — pulling people into high-demand cities. That strains credulity. Many places that don't build attract residents, and many cities that do build do not. Affluent people have moved to the Bay Area even though its housing stock has not grown, and star-crossed [efforts](#) at [redeveloping](#) the Rust Belt have shown that simply erecting buildings cannot bring in affluent migrants.

Figure 1.
“Migration between Census Tracts in Chicago Metropolitan Area” (From Mast (2019), pg. 31)



When people move from a home in a lower- or middle-income neighborhood, they tend to move to a census tract with a higher median income than the one they left. The median move from Chicago census tracts in the 1st decile of household incomes was up slightly, to the 2nd decile; the median move from the 3rd decile was to the 4th, and so on.

displacement to a neighborhood with a lower income falls by 17.1%, and eviction notices¹ decline by 31% in rent-stabilized housing but do not change for non-rent-stabilized homes. This latter finding is important: The gap between rents in a rent-stabilized unit and market-rate unit grow faster when rents are rising fast, and that gap gives landlords more incentive to evict rent-stabilized tenants. If new market-rate units slow or halt neighborhood rent growth, landlords have less reason to seek new tenants because rents in market-rate and rent-stabilized units are more similar.

Pennington also finds evidence of a demand effect, with a 16% increase in residential renovations and 22% increase in business turnover within 100 meters of new market-rate developments. Affordable developments appear to have no effect on local rents or displacement rates — though, of course, a home affordable to a low-income household provides its own benefit.

Again the conclusion is clear: The supply effect is stronger than the demand effect “at any distance” — market-rate housing improves affordability at both the metro area and neighborhood level.

**“DO NEW HOUSING UNITS IN YOUR BACKYARD RAISE YOUR RENTS?”
XIAODI LI (2019)**

As with Pennington in San Francisco, Li’s analysis of New York City finds a market-rate development demand effect accompanied by an even larger supply effect. The analysis is limited to high-rise buildings of seven stories or more, the costliest building type and therefore most likely to be classified as “luxury” units, with rents 60% higher than the average rents in their census tracts. If any development type is likely to have a larger demand effect than supply effect, it should be high-rises.

The demand effect is measured by restaurant openings, with new high-rises increasing openings by 9%. Despite these (and presumably other) new amenities, however, rents fell by 1.6% within 500 feet of new high-rises one year after their completion and persistently thereafter. Rents declined for upper-, mid-, and low-rent buildings within 500 feet, but the results were not statistically significant for low-rent buildings.

¹ Eviction notices are not a perfect proxy for evictions because not all eviction notices lead to evictions, and not all evictions are preceded by a notice. Tenants may resolve the complaints that led to the eviction notice being filed, or they may be displaced by informal means including “cash for keys” agreements or landlord harassment; however, earlier studies noted by Pennington indicate that eviction notices and moves to lower income neighborhoods capture the majority of cases of involuntary displacement.

fears of supply skeptics are not unfounded: Market-rate development benefits the affluent while worsening affordability for the poor.

How does this paper arrive at a conclusion different from the papers above? Even similar research articles often differ in many ways, ranging from how they define terms to how they choose treatment and comparison groups, and the papers here are no exception. To keep things brief, we'll focus on two big differences between this paper and the others, one that suggests the paper may be correct and one suggesting that further investigation may be warranted.

The first explanation is that many of the other papers didn't look for the problem Damiano and Frenier found. When Damiano and Frenier examined the impact of new development on rents overall, their findings resemble those of the other papers. Only when they break nearby existing units down by market segment do they find the troubling rise in the rents of lower-priced stock. (Note, however, that Mense, in his slightly different paper, did look at submarkets of housing, and found that new development made rents fall for cheaper stock, and Asquith, Mast, and Reed focused their analysis on new development in low-income neighborhoods, suggesting that many of the buildings they studied were in a lower submarket.)

A second difference lies in the data the authors use, and how they choose to use it. Damiano and Frenier do not adjust the rents in their study for inflation, which is an unusual decision, and one that makes the rent increases they report look much larger than they actually were. The table below, which is reproduced from their paper, shows the summary statistics for their data set. Between 2000 and 2018, by their calculations, mean rents in their sample increased by 47.9%, 39.4%, and 30.3% in the lower-, middle-, and upper-tier submarkets, respectively, and increased 38% overall.

Figure 4.
“CoStar Characteristics by Market Tier” (From Damiano and Frenier (2020), pg. 17)

Market Tier	N Buildings	N Bld-Br Combo.	Mean Rent		Pct. Change 2000-2018
			2000	2018	
Lower	88	116	578.6 (122.7)	851.5 (252.5)	47.9 (35.5)
Middle	207	316	714 (154.2)	993.2 (227.2)	39.4 (16)
Upper	113	183	961.9 (343.3)	1,239.8 (400.7)	30.3 (15.2)
Total	408	615	762.2 (263.5)	1,039.9 (325.2)	38.3 (21.7)

Note: Standard deviations in parentheses. Rent reported in nominal dollars

Average rents in Minneapolis by market tier in 2000 and 2018. Year 2000 rents are not adjusted for inflation.

Related Research

**“UPZONING CHICAGO: IMPACTS OF A ZONING REFORM ON PROPERTY VALUES AND HOUSING CONSTRUCTION”
YONAH FREEMARK (2019)**

Freemark’s paper is often cited as evidence that efforts to increase housing production may not lower rents (e.g., [here](#) and [here](#)), and sometimes cited as evidence that new development worsens affordability ([here](#), starting at 11:30). Freemark’s paper is important, but it’s actually about neither of those things. Calling it a paper about rents is misleading and incomplete, and calling it a paper that equates density with less affordability is flatly untrue.

Here’s what Freemark did. In 2013 and 2015, the city of Chicago upzoned transit-adjacent properties to allow for modestly higher densities or reduced parking. Freemark examined this zoning change to see if it had an impact on development or property values. He found that upzoned parcels had higher property values — a 12.2% to 13.2% increase in condo sale prices for affected properties, for example — but were not any more likely to have seen increased housing production.

That’s an interesting finding, but isn’t one that has much bearing on whether development reduces rents, since a) Freemark found no increase in development and b) he didn’t study rents. We can talk about b) first. Freemark only examined sale prices, and sale prices are not rents. Sale prices capture both current and expected value in a way that rents do not. Sale prices are like Tesla stock, which is speculative, and based at least in part on expectations about Tesla’s future potential. Rents are like the price of a Tesla vehicle — based on how useful they are to customers right now. Sale prices still matter, but tell us little about rents. And because most lower-income households rent, not own, we are more concerned with impacts on rents.

The more important issue, though, is a): Freemark studies the impact of zoning changes intended to induce redevelopment. The question at hand, and the one the other authors we cover above study, is the impact of development if it occurs. Freemark’s paper demonstrates how upzoning may worsen affordability if it doesn’t lead to new development, but it doesn’t tell us anything about the impacts of development itself.

Responding to misrepresentations of his work, Freemark has made similar comments: “Since I did not find any increase in construction resulting from the upzoning, I was not measuring the impact of higher density. So it is inaccurate to argue that I identify increased density as a cause of reduced affordability.”

If there is reason to doubt that upzoning will lead to increased housing production, then

find zoning changes so threatening.

Discussion

The supply effects described in these papers are not large, but the authors make a persuasive case that market-rate development causes rents in nearby buildings to fall rather than rise. Their findings conform with long-standing planning and economic theory about the relationship between housing supply and affordability, and the common sense notion that the problem of too few homes cannot be solved without building more homes. Theory, evidence, and common sense are all in agreement, so we should approach claims to the contrary with a healthy dose of skepticism.

These findings do not give license for market-rate development irrespective of local impacts, which vary from place to place and project to project. Local, project-specific impacts are in fact impossible to predict. They do, however, support the argument that market-rate housing should be assumed to complement rather than undermine other affordability and economic empowerment strategies. If market-rate housing lowers nearby rents, it can help stabilize property values so that affordable housing construction and acquisition is less costly. It can lower the per-household cost of housing voucher subsidies so that we can help more people afford their rent, and limit the rising prices that are forcing residents out of their homes and onto the streets. It can be harnessed to cross-subsidize affordable units through policies like density bonuses and inclusionary zoning, and generate property taxes to support other essential public services.

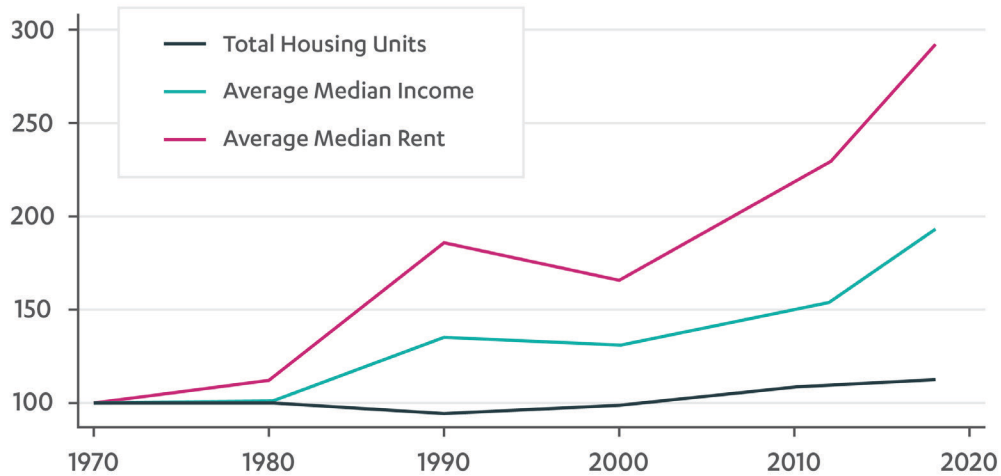
The evidence above does not suggest that all development, in all cases, is unproblematic. It is possible for new housing to do more harm than good. A project could result in a net reduction of housing units, for example, or it could displace low-income households in exchange for only a modest increase in the housing supply.

Even if no homes are demolished, development could still create problems. If cities concentrate new housing in communities of color, that housing could accelerate demographic change, and this change could in turn be unsettling or alienating for longtime residents. Such change can also be physically threatening when, for example, newer affluent white residents call the police to impose their own social norms on their neighbors. Demographic change in low-income neighborhoods can cause pain, problems, and conflict, and cities should not be naive about that fact.

Development can be further problematic if it comes in spite of community resistance to it. While local residents should not have veto power over all development, affluent communities have had tremendous success blocking housing in most U.S. jurisdictions, so to elide similar concerns in less affluent, less white neighborhoods would replicate decades of racist planning mistakes. Planners need to make strong efforts to collaborate with concerned residents on planning for change,

income has almost doubled. Preventing development did not prevent change.

Figure 5.



Trends in Housing Units, Rent, and Household Income in Echo Park

Notes: Constructed from normalized census tract data using Neighborhood Change Database. Rents and household incomes are the average of the medians reported for each census tract in Echo Park. This is a trend graph where 1970=100. Real rents in absolute terms were \$463 in 1970 and just under \$1400 in 2018.

The point is not that neighborhoods should have no concerns about change. Protecting low-income tenants in low-income communities, however, probably involves policies that are not directly related to the total quantity of housing. Rental subsidies and low-income development subsidies, rent controls or stabilizing measures, and neighborhood preference policies can all play an important role in helping manage and mitigate change.

Perhaps most important is that this whole discussion — of what happens when new development arrives in a neighborhood where many lower-income people live — could be largely avoided if we built new housing mostly in higher-income, higher-resourced communities. Development in more affluent places, where fewer residents are precariously housed, could allow more people access to opportunities and alleviate demand pressures elsewhere in a region. But such development rarely happens now, because zoning prevents it.

With all that said, the findings reported here are promising. If market-rate housing did not temper the affordability crisis — or worse, if it exacerbated it — we would have little hope for a resolution. Public budgets for housing are too small, the cost of housing is too high, and the number of



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