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INSIGHT

# The Impact of New Market-Rate Housing on Neighborhood Affordability

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In recent years, and in response to the mounting affordability crisis, a vocal contingent of progressive housing advocates, policymakers, and community members has emerged in opposition to new market rate housing projects. These advocates argue that unless projects contribute meaningfully to the affordable housing supply, new construction projects ultimately exacerbate rising housing costs, thereby accelerating gentrification and resident displacement. At the core of this perspective is the assumption that new construction attracts wealthy households, signals to landlords to increase rents, and brings in new community amenities.[1] Market responses like these outweigh any benefit incurred from an increase in market-rate supply. The emergence of this contingent is not politically insignificant and has helped successfully block proposed development projects. In a fascinating turn of events, it seems affordable housing and tenant advocates have both aligned their interests with anti-development Not-In-My-Backyard (NIMBY) organizations and pit themselves against the Yes-In-My-Backyard (YIMBY) movement.[2]

This analysis responds to the well-intentioned but empirically undefended position held by this contingent. By drawing upon recent scholarship describing the impact of housing production on rental rates within a neighborhood, this article shows that, in general, the supply effect dominates the demand effect. In other words, new construction is usually tied to a decline in housing costs at the local level.

These findings fill a critical gap in research on housing production outcomes. While there is significant evidence showing that increased housing supply reduces pricing across a region, much less is understood about effects at the neighborhood scale. The results from recent studies deepen the empirical understanding of how new construction impacts local housing costs.

Moreover, these outcomes hold real policy implications. Policymakers can and should utilize new housing production in order to grapple with the affordability crisis rather than shackling developers with new burdensome regulations. Having said that, policymakers should also recognize that new production will not benefit all residents, particularly very low-income households, and thus must continue to bolster affordable housing programs and subsidies.

The paper will be divided into four sections. The first one identifies and reviews key concepts that support the analysis' central argument, including

*1 Vicki Been, Ingrid Gould Ellen, and Katherine O'Regan, "Supply Skepticism: Housing Supply and Affordability," Housing Policy Debate (2019): 6.*

*2 Perhaps the best example of this dynamic occurred during the debates around Senator Scott Weiner's SB50, which proposed upzoning single-family parcels around transit and job centers. Laura Bliss describes how low-income community members and housing advocates connected the bill to rampant gentrification in high cost Californian cities. Laura Bliss, "The Political Battle Over California's Suburban Dream," CityLab, published April 5, 2019, https://www.bloomberg.com/news/ articles/2019-04-05/the-suburbs-that-fear-california-s-housing-bill. Another illustrative example comes from Pennington's work. She describes an article from 48 Hills that celebrates a proposed market-rate project's conversion into affordable, stating that "market-rate housing . . . would drive up prices [for] everyone else in the area and lead to massive displacement." Kate Pennington, "Does Building New Housing Cause Displacement?: The Supply and Demand Effects of Construction in San Francisco," (August 9, 2021): 2.*

the supply and demand effects, gentrification, displacement, and filtering. The second section examines how housing production increases affordability and reduces housing costs across regional and/or metropolitan markets. The third section examines the paper's central question: how does new construction affect housing affordability at the neighborhood level? The fourth and final section considers what the results of the study may mean for policymakers and considers what those findings may mean for Portland, Oregon.

## SECTION I: HOUSING TERMS, CONCEPTS, AND CONTEXT

### *a. Affordable Housing Crisis in America*

Even prior to the COVID-19 pandemic, which exacerbated existing trends in housing unaffordability, the share of rent burdened households in the U.S. was growing.[3] Of particular concern, the number of cost-burdened middle-income households has steadily risen. In 2018, 55.7% of households earning $45,000-$74,999 experienced a rent burden and 27% of homeowners earning $45,000-$74,999 were cost burdened. This reflects increases of 5.4% and 4.3% respectively since 2011.[4] Inextricably tied to these metrics are the decline in low-cost rentals across the country. Between 2012 and 2017, the number of units renting for over $1,000 increased by 5 million, while the number of units renting for $600 or less decreased by 3.1 million. In all 50 states and Washington, DC, the number of low cost rentals fell, reducing their overall share of the national rental stock from 33% in 2012 down to 25% in 2017.[5] The realities and impact of these market dynamics are the following: in 2019, a full-time worker earning the average renter's wage could afford a two-bedroom apartment price at the HUD-designated Fair Market Rent (FMR) in only 10% of counties across the U.S. and one-bedrooms in only 40%.[6]

The severity and breadth of the housing crisis requires empirically supported policy solutions. Expanding affordable housing production for low and very-low households is a proven, but insufficient strategy. Increasing the housing supply—hotly contested politically and hampered by regulatory regimes—is another tool and the focus of this analysis.

### *b. The Supply and Demand Effects of Housing Production*

The supply effect of market-rate production promotes housing affordability by slowing rent escalation or reducing rent prices. In a standard housing model, increased supply shifts the supply curve right, corresponding to increased demand at a lower equilibrium price. Thus, increased availability

*3 Note that this study looks specifically at renter households. The share of cost-burdened homeowners is also rising. Shwartz notes that 24% of homeowners earning between 80% and 120% AMI experienced moderate or severe cost burdens in 2017, up significantly from 2000. See: Alex Shwartz, Housing Policy in the United States, 4th edition (New York: Routledge, 2021): 31.*

*4 "America's Rental Housing 2020," A Report by the Joint Center for Housing Studies of Harvard University (2020): 4.*

*5 "America's Rental Housing 2020," 2.*

*6 Shwartz, Housing Policy in the United States, 34. FMR rates are used to determine payment standards for affordable housing programs. They are calculated based upon the 40th percentile of gross rents for standard quality units within a metropolitan area. For more on this see: "Fair Market Rents (40th Percentile Rents)," Department of Housing and Urban Development, accessed February 22, 2022, https://www.huduser.gov/portal/datasets/fmr.html.*

relieves pressure on the existing housing stock. The demand effect (also referred to as the "amenity effect") of market-rate production decreases housing affordability by increasing rental rates. New construction, according to the logic of this effect, drives in-migration from high-income residents living in other city areas, attracts new community amenities like restaurants and coffee shops, and thus increases demand for the surrounding neighborhood. The demand effect is strongly correlated with gentrification.[7]

As discussed in more depth in section III, determining the relative impacts of these two empirical processes is challenging. Developers do not invest in markets at random, but rather target those that will generate the highest rate of return and that are experiencing significant appreciation.[8] Therefore, the supply and demand effects occur concurrently, making it "difficult to disentangle the effect of increased local supply from shifting neighborhood characteristics before and after new construction is completed."[9] Nonetheless, researchers have identified new, creative solutions to control for this complication.

*c. Filtering*

Filtering describes a process in which affordable homes are made available to low-income households. Wealthy households can afford and demand higher quality housing units, which, in general, are provided through new construction or rehabilitation projects.[10] Over time, a household's unit ages and declines in quality. At that point, the household may elect to move into a different newly constructed unit, making their previous dwelling available to middle- or low-income households. New construction projects, including luxury developments, thus play a role in relieving pressure on housing costs across the income spectrum. Been et al. reports that, between 2003 and 2013, filtering was the largest contributor to additions to low-cost rental stock.[11] Because it promotes market-rate affordability over time, filtering is associated with the supply effect.

*d. Gentrification and Displacement*

Gentrification is characterized by higher-income households moving into a neighborhood currently housing relatively less affluent households. Rising income and levels of education are two key household characteristics indicative of a gentrifying neighborhood. In response to this shift in

*7 These effects are summarized in the UCLA report on the local impact of new housing construction. Shane Phillips, Michael Manville, and Michael Lens. "Research Roundup: The Effect of Market-Rate Development on Neighborhood Rents," A UCLA Report (February 17, 2021): 4. It's also important to note that researchers monitor the possibilities of new construction creating a dis-amenity effect as a result of the added population in a neighborhood. A plausible example would be congestion: traffic increases as new residents are added to a community, rendering it less desirable and reducing rents. Therefore, a dis-amenity effect and supply effect will both reduce rents in the area. Distinguishing between them is important when attempting to weigh the relative impact of these market processes.*

*8 Each of the articles here articulates this challenge: Xiodi Li, "Do New Housing Units in Your Backyard Raise Your Rents," in Essays on Urban Real Estate (PhD diss, New York University, May 2020), 4-65; Pennington, "Does Building New Housing Cause Displacement?," 1-57; and Anthony Damiano and Chris Frenier, "Build Baby Build? Housing Submarkets and the Effects of New Construction on Existing Rents," a Center for Urban and Regional Affairs Working Paper (October 16, 2020): 1-47.*

*9 Damiano and Frenier, "Build Baby Build?," 2.*

*10 Ibid., 6.*

*11 Been, Ellen, and O'Regan, "Supply Skepticism," 1-22.*

resident demographics, new amenities appear in the area in the form of restaurants, retail, and other attractive businesses, which drives increased demand for the neighborhood and housing cost escalation. This process of changing community characteristics, amenities, and aesthetics explains why gentrification is strongly linked to the demand effect.

Displacement refers to push migration as households move from one neighborhood to another, typically lower-income and with less economic opportunity.[12] While these processes may happen simultaneously, gentrification and displacement can occur independent of one another.[13] For example, displacement may occur when one minority community moves into a neighborhood predominated by another minority community. Similarly, Professor Suleiman Osman of George Washington University observed that Brooklyn renters facing significant pressure to leave gentrifying neighborhoods were displaced at comparable rates to non-gentrifying blocks with high vacancy rates and abandonment.[14]

## SECTION II: HOUSING PRODUCTION AND REGIONAL RENTAL RATES

In contrast to those housing advocates who oppose new housing construction as a viable solution to managing the affordability crisis, urban economists and researchers have found that, at the regional level, building more housing slows pricing escalation or reduces housing costs. Alan Durning of Sightline Institute, for instance, argues that cities not only can build their way out of the affordability crisis, but have been doing so for decades.[15] Durning examined cities across the globe that have experienced significant population growth while managing housing costs. He offers the example of Houston, the fourth largest city in the United States and among the fastest growing. When adjusted for inflation, Houston's housing costs in 2018 were less than housing costs in 1980 and the city has accommodated over four million more residents. While it may be heavily automobile-dependent and sprawling, Houston has achieved "extraordinary affordability" by easing regulatory and bureaucratic barriers to new construction.[16] Tokyo, the world's largest city at just under 40 million residents, provides another illustrative example. Compared to Seattle's median home price at $748,000, a close-in home in Tokyo sells for $300,000. With flexible zoning rules, few legal obstructions, and minimal red tape, Tokyo has established a uniquely construction-friendly culture. In the decade before

*12 Pennington, ""Does Building New Housing Cause Displacement?," 2.*

*13 In her article, Jerusalem Demsas notes that the evidence tying gentrification to displacement is a "mixed bag," noting that some researchers have found gradual residential turnover where others have identified rapid displacement and others none at all. Jerusalem Demsas, "What We Talk About When We Talk About Gentrification," Vox, published September 15, 2021, https://www.vox.com/22629826/gentrification-definition-housing-racism-segregation-cities.*

*14 Here I'm drawing upon Demsas' discussion in: Demsas, "What We Talk About When We Talk About Gentrification."*

*15 Alan Durning, "Yes, You Can Build Your Way To Affordable Housing," Sightline Institute, published September 21, 2017, https://www.sightline.org/2017/09/21/yes-you-can-build-your-way-to-affordable-housing/?gclid=Cj0KC QiAr5iQBhCsARIsAPcwRONr-Wyi0IGGUzX3W10snzQ_ola5mE0SVmcQ9lYsahWGHsq4sLwXz8rkaAr7BEALw_wcB.*

*16 Durning, "Yes, You Can Build Your Way To Affordable Housing."*

2018, rent in the metropolis fell as housing construction outpaced demand.[17] From Chicago to Montreal, Vienna, and Singapore, Durning found that housing construction reduced rents across metropolitan areas: "Building plenty of housing is not just one way to affordability, it is the only way—the foundation on which other affordability solutions, measures against displacement, and programs for inclusion rest."[18]

Rethinking Federal Housing Policy by Edward Glaeser and Joseph Gyourko offers another authoritative work documenting how a lack of housing production deepens regional unaffordability.[19] Glaeser and Gyourko argue that the country's housing markets suffer from two affordability challenges: the first is around delivering adequate subsidized housing units to those living in deep poverty and the second is the ballooning cost of middle-class housing in coastal markets. While both challenges require specific solutions, they ultimately write that "true affordability is more likely to come from improving supply than subsidizing demand."[20] Improving supply, however, is restricted by onerous land use restrictions, especially in high-cost markets.

There is a direct correlation between housing cost and strict land-use controls. For instance, they reference a nationwide survey on regulatory conditions showing that areas with the most restrictive land-use policies saw housing prices an average of $130,000 more than locales with average land-use regimes.[21] These local policies vary widely, but some of the most impactful are limitations on the number or size of units allowable on a parcel of land. In the most extreme examples, a web of policies overlaps to virtually freeze housing supply despite growing demand and soaring prices. For Gyourko and Glaeser, loosening these restrictions generates development opportunities, which grows the supply and brings down pricing. Simply put, when "a locality builds, it makes housing more affordable for everyone."[22]

Been, Ellen, and O'Regan's article on "Supply Skepticism" directly addresses anti-development housing advocates and reaches the same conclusions as Durning, Glaeser, and Gyourko.[23] The authors identify four assumptions undergirding the belief that new construction projects exacerbate housing unaffordability. These assumptions include: (1) that housing is such a constrained good that market rate housing comes at a direct expense of affordable housing; (2) that filtering does little for affordability challenges at the bottom of the housing market; (3) that housing construction drives 'induced demand'; and (4) that spillover effects like gentrification and displacement will occur in the immediate neighborhood seeing new construction. The authors go on to debunk each of these assumptions, showing that housing does respond to the rules of supply and demand and

*17 Ibid.*

*18 Vienna and Singapore offer slightly different case studies because they have achieved affordable rents through a long history of unparalleled public-sector involvement.*

*19 Edward Glaeser and Joseph Gyourko, Rethinking Federal Housing Policy: How to Make Housing Plentiful and Affordable (Washington, D.C.: AEI Press, 2008).*

*20 Glaeser and Gyourko, Rethinking Federal Housing Policy, 4.*

*21 Ibid., 9.*

*22 Ibid.*

*23 Been, Ellen, and O'Regan, "Supply Skepticism," 1-22.*

highlight that filtering is a quantitatively supported phenomenon. They make the good point that skeptics draw anecdotal evidence from rising rents in areas with new construction; what they don't see, however, is the greater pricing increases that would have resulted had there been less construction.[24] Ultimately, the authors state unequivocally that "the preponderance of evidence suggests . . . new construction will moderate price increases and therefore make housing more affordable to low and moderate income families."[25]

Eric Cress, a principal of Portland's Urban Development + Partners (UD+P), discussed a number of these issues over a brief call. To contest the notion that development somehow deepens unaffordability across a market, Eric offered two sets of provocative thought experiments. First, what would happen if you destroyed all the newly developed housing in a community? If development was truly the driver of housing unaffordability, then undoing that work would, under this perverse logic, somehow make a market more affordable. Second, how would housing costs respond to a market that was oversupplied with housing? Would costs come down or increase? His point is a good one and the simplicity of the scenarios works to their advantage. These questions strip away the complexities of local housing politics to show that, at its core, housing development adheres to the laws of supply and demand; the greater the supply, the lower the cost.

If researchers and practitioners agree that new construction supports regional or broader-market housing affordability, there is much less of a consensus around how new construction affects affordability for a neighborhood. What happens to the immediate vicinity when a new market-rate project is built? Do nearby landlords increase rents in anticipation of new demand? Or does the increase in supply suppress rents? Until recently, there were few studies on this subject.

## SECTION III: HOUSING PRODUCTION AND NEIGHBORHOOD RENTAL RATES

This section does not examine one particular housing submarket; instead, it synthesizes recent scholarship attempting to quantify the relative impact of the demand and supply effects for new market-rate projects at the neighborhood level.[26] Overall, studies generally agree that the supply effect dominates the demand effect, thereby reducing housing costs nearby.[27] Multiple studies also found that new construction projects influence rents differently depending on the neighboring property's housing quality—

24 *Ibid., 4.*

25 *Ibid., 3.*

26 *Pennington, "Does Building New Housing Cause Displacement?"; Li, "Do New Housing Units in Your Backyard Raise Your Rents,"; Asquith, Mast, and Reed, "Supply Shock Versus Demand Shock;" and Damiano and Frenier, "Build Baby Build?"; and Rebecca Diamond and Tim McQuade, "Who Wants Affordable Housing in Their Backyard? An Equilibrium Analysis of Low-Income Property Development," Journal of Political Economic 127, no. 3 (April 9, 2019): 1063-1117.*

27 *For more on this subject and a larger housing production discussion, see Ezra Klein's conversation with Jenny Schuetz of the Brookings Institute. See: Ezra Klein and Jenny Schuetz (hosts), "Why Housing is So Expensive—Particularly in Blue States," The Ezra Klein Show (podcast), July 19, 2022, https://www.nytimes.com/2022/07 /19/opinion/ezra-klein-podcast-jenny-schuetz.html.*

buildings charging higher rents and thus targeting higher-income households are more likely to see declines in rents than low-income properties.

### *a. Methods*

Three of the studies reviewed (Li, Damiano and Frenier, and Pennington) examine a single housing market: New York City, Minneapolis, and San Francisco respectively. Asquith et al., as well as Diamond and McQuade, on the other hand, aggregate data, analyzing outcomes across multiple metropolitan areas. All studies examined parcel or building level rent data through a variety of databases, including Zillow, Craigslist, CoStar, and various public resources. Two studies, Pennington and Asquith et al., also tracked in- and out-migration patterns by evaluating address histories via Infutor Data Solutions. The advantage to examining migrations is that it sheds light on demographic change and potential displacement. Additionally, maximum radiuses around new construction projects range from 500ft (Li) to 800m (Damiano and Frenier).

### *b. Results*

Asquith et al., who used Zillow data from 2013 to 2018, find that new buildings lower nearby rents in low-income neighborhoods. The researchers estimate a 5-7% reduction in rents, corresponding to savings of between $100-$159 per month per unit. They thus conclude that the supply effect dominates the demand effect:

> *[I]f new housing is built, many high-income households will choose this option instead of a nearby existing unit, reducing rent and out-migration pressures in the area. The new building could theoretically change local amenities or reputation by enough to instead increase demand and raise rents for nearby units, but our findings suggest this is not the case.* [28]

The authors did test for a possible dis-amenity effect from increased congestion in the greater area, which would have increased the relative impact of the supply effect, but ultimately found no evidence in support of that hypothesis. In their second round of results related to migration patterns, the researchers found that new construction decreases the average income of neighborhoods experiencing out-migration by 2%. They also found an increase in the share of in-migrants from very low-income neighborhoods by 3%. Their findings thus support the positive impacts of filtering at the local level, writing that "new buildings reduce costs in lower segments of the housing market, not just in the high-end units that are the most direct competitors of new buildings."[29]

In her study on supply and demand effects in New York City, Xiodi Li found that new high-rise construction (greater than seven stories) caused nearby high-end and mid-range rental building rents to decrease. In the area within 500ft of the high rise, rents decreased by 1.6% one year after construction

28 *Asquith et al., "Supply Shock Versus Demand Shock," 22.*
29 *Ibid., 3.*

completion. This corresponds to a 1% decrease in rents for every 10% of housing stock added to the supply.[30] These results indicate an alleviation of demand pressure on existing housing stock and suggest the early stages of filtering. While decreases were detected among high and middle-tier housing developments, Li did not observe significant rental decreases for housing at the low-end of the market. These results likely stem from the fact that newly constructed units offer good substitutes for existing high and middle-tier units, while lower-tier stock offers a poor substitute. By tracking restaurant and coffee shop openings near the new high-rise, Li did observe a demand or amenity effect; a year after completion, immediate neighborhoods saw a 9% increase in restaurant openings. The decreases in rent, however, demonstrate that the supply effect dominates the demand effect.[31]

In her study of San Francisco, CA, Pennington concludes that the supply effect outweighs any demand effect. On average, for buildings within 100m of new construction projects, rents fell by $28 per month. Interestingly, the supply effect impacted the market at a kilometer-wide radius, while the demand effect had a narrower radius. This dynamic suggests a more localized impact from increased amenities, while additions to supply have a broader impact. Demand effect outcomes like permitting new construction projects, residential renovations, and business turnover occurred primarily within eyeshot of the subject property.[32] Reduced eviction notices for rent-controlled units were also observed: Pennington found that the probability of receiving an eviction notice dropped by 31% for buildings within 100m of a new project. Overall, the researcher concludes that new construction may benefit incumbent tenants by "reducing rents, evictions, and the risk of moves to poorer zip codes. It also attracts wealthier newcomers and new endogenous construction, slowly gentrifying neighborhoods without displacement." [33]

Pennington's study also monitored outcomes associated with 11 new affordable housing construction projects. Because affordable housing contributes no additional units to the market-rate supply, these properties may be characterized by a slight demand effect. Pennington shows that the net impact of affordable housing is weakly positive, with insignificant pricing increases, and has no effect on displacement risk. [34]

Damiano and Frenier found mixed results in their study of Minneapolis, MN, showing that the net impact of the supply and demand effects is dependent on the condition and quality of the nearby property (market tier). For high tier properties rent growth slows in the immediate vicinity due to the ability to substitute comparable unit types; high tier housing rents close to new construction were 3.2% lower than comparison buildings in the control group.[35] This result connects with similar findings from Li. At

*30 Li, "Do New Housing Units in Your Backyard Raise Your Rents," 29-30.*
*31 Like Asquith et al., Li considers dis-amenity impacts in the form of obstructed views, shadows, and unwanted physical changes, but finds minimal impact. Ibid., 22-24.*
*32 Pennington, "Does Building New Housing Cause Displacement?," 5.*
*33 Ibid.*
*34 Ibid., 18.*
*35 Damiano and Frenier, "Build Baby Build?," 28.*

multiple radii, the researchers did not observe statistically notable changes in rents for middle tier properties. Low tier housing, on the other hand, saw a 6.6% rise in rental pricing compared to comparison units. The authors did note an important caveat to the finding that the demand effect dominates the supply effect for low tier properties. Because new construction projects tended to occur in core urban areas and in emerging markets, there were "a limited number of low market tier buildings in th[e] distance band." [36] Damiano and Fernier propose that increased rents for low tier properties may result from signaling to landlords about new demand in the housing submarket. They also suggest that because low tier units are poor substitutes for high tier new construction, the supply effect will be much weaker at the lower end of the housing market.

Diamond and McQuade's article is unique in that it specifically analyzes the impact of subsidized housing developments on neighborhood home values. 7,098 Low-Income Housing Tax Credit (LIHTC) projects were examined across 129 counties in 15 states. The researchers found that LIHTC developments have varying effects on local house prices depending on neighborhood income levels. In lower-income areas, affordable housing developments are causally linked to neighborhood appreciation. The same is true for areas with a high minority share. In local areas with higher median incomes and low minority shares, the introduction of affordable housing is tied to depreciation. The authors attribute this in part to ownership preferences. In lower-income neighborhoods, newly constructed affordable housing is viewed as an amenity, indicating new investment and growth. As such, relatively higher-income households are willing to pay higher home values in the immediate area.[37] Higher-income households, on the other hand, perceive affordable housing as a dis-amenity and pay more to live farther from the development. It is important to note that this study does not examine rental rates, nor does it look at the short-run impact on housing supply. This makes Diamond and McQuade's article an outlier compared to the others reviewed here. Nonetheless, their contribution expands our understanding of the heterogeneous impacts of new construction on different neighborhood types, finds evidence for amenity and dis-amenity effects, and suggests noteworthy policy implications.

In summary, the studies reviewed in this section fill a critical gap in the literature around housing production. While the impact of regional or metropolitan housing production on affordability is well documented, neighborhood-level impacts were relatively understudied. The results from these studies show that, in general, the supply effect outweighs the demand effect. They also suggest that the relative impact of each may vary based upon the quality and condition of nearby properties.

36 *Ibid., 18.*

37 *The researchers also observe reductions in both violent and property crime. Diamond and McQuade, ""Who Wants Affordable Housing in Their Backyard?," 1114.*

## SECTION IV: POLICY IMPLICATIONS AND LOCAL CONSIDERATIONS

The results identified in section III have significant implications for planners, real estate practitioners, and policymakers. This section examines those implications first for metropolitan areas in general and then applies them to the Portland region.

At its most fundamental, the findings from section III should encourage policymakers to implement strategies that expand housing supply in order to promote affordability. If, as Gyourko and Molloy write, "the vast majority of studies have found that locations with more regulation have higher house prices and less construction," then cities must reevaluate or relax those regulatory policies that substantially deter housing production.[38] Contrary to housing and tenant advocates arguing that new construction is intrinsically a "gentrification machine", policymakers should eliminate barriers to development and incentivize building. When so many metropolitan areas are severely underbuilding housing, this is absolutely critical to addressing the affordability crisis.

Evidence from the studies above also provide warning signs about the winners and losers of market-rate construction. While rents may be reduced for more expensive property types, lower end buildings may not see substantial changes or, in some situations, may see increased housing costs. What's more, it is highly unlikely that new construction can deliver affordable market-rate properties to households across the entire income spectrum. For this reason, policymakers should not only remove barriers to development, but also continue to deliver subsidies for the most vulnerable residents. That means continuing to develop local solutions, including voluntary inclusionary zoning policies, bond initiatives, and housing trust funds that support federal programs and add to the affordable housing supply. A dual supply strategy—market-rate and affordable—will achieve greater levels of affordability than would be possible from just one approach.

To that end, Pennington makes a few noteworthy recommendations for how market-rate and affordable housing projects may be used tactfully and in conjunction. She characterizes these two housing types as "complementary" policy levers. Market rate construction has nearby spillover effects in the form of reduced rents and gentrification by attracting wealthier households. Affordable housing, on the other hand, reduces displacement risk and prevents short-term gentrification by reserving units for low-income households.[39] Used in tandem, then, they can "achieve long-term income diversity by retaining lower-income people permanently, while market rate housing contributes to gradual gentrification."[40] This represents a valuable strategy for planning new construction projects.

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*38 Joseph Gyourko and Raven Molloy, "Regulation and Housing Supply," National Bureau of Economic Research, NBER Working Paper Series (2014): 42.*
*39 Pennington, "Does Building New Housing Cause Displacement?," 21. Note that Pennington's conclusion here would be contested by Diamond and McQuade's findings if the*
*40 Ibid., 22.*

McQuade and Diamond would likely add that by targeting low-income neighborhoods for market-rate and affordable development, positive spillover effects would be maximized in the form of appreciating home values. There are limitations to that approach—namely the short-term concentration of poverty, deepening of segregation, and potential lack of access to high-opportunity areas. If we take Pennington's idea of complementary levers, however, it may be possible to use market-rate and affordable development to balance negative spillover effects in high-income neighborhoods. If both housing types were situated in the same wealthy neighborhood, would an affordable housing development's downward pressure on home values outweigh the market-rate project's upward pressure or vice versa? The answer to that question suggests that coupling housing types together may mitigate the downsides of each individual type. Home values might not be adversely affected, gentrification may occur as higher-income residents migrate to the neighborhood, and lower-income residents would be ensured an affordable home for the medium to long term.

What lessons can the Portland region glean from these recommendations? Four stand out. First, Portland's decision makers must stimulate new development. There are several avenues to do so, including: streamlining the costly and time-consuming regulatory approval process (design review in particular); expanding the urban growth boundary to add to the region's developable capacity; incentivizing projects now allowable under the Rapid Infill Program; and revising the burdensome Inclusionary Housing policy. As Eric Cress at UD+P noted in the conversation, all these local fees on development, or absurd housing-development "sin taxes" as he called them, undoubtedly add up, driving up costs and deterring production. While building more housing in these areas won't halt upward pressure on housing costs, they will slow price escalation. The city should take a strong, data-driven stance against those housing advocates who create an oppositional dichotomy between market-rate and affordable housing. Indeed, to oppose development, especially at this time, is to only deepen the affordability crisis.

Second, if new construction's impact on an immediate area varies depending upon the income of nearby residents (e.g. a weaker supply effect at the lower end of the housing market), then Portland's planners may opt to prioritize development in higher-income submarkets. Different development incentives could be offered in these submarkets to drive housing production, which will bring down nearby rental rates (supply effect dominates), and generate a filtering process as higher-income households move-in. In other words, the results reviewed in this analysis should be evaluated as specific communities are considered for development.

Third, policy makers should explore how market-rate and affordable projects may be paired together to maximize the favorable outcomes of both property types in changing neighborhoods. Creative solutions like these offer a nuanced approach to housing development.

Finally, this analysis complicates traditional narratives about what gentrification "looks" like in Portland. So often, new market-rate multifamily properties are presented as convenient distillations of a neighborhood's gentrification and its residents' displacement. This is a misleading and deceptive narrative; this analysis suggests that expanding the housing supply actually resists those processes of unwanted community change. Darrell Owens, a data analyst with California YIMBY, argues that, over time, a sustained lack of development drives unaffordability, exclusion, and a lack of class- and race-based diversity: "If you treat your city like a suburb, then it'll have the demographics of a suburb."[41] Portland decision makers should simultaneously recognize development as a powerful tool for promoting affordability, while also empirically engaging with communally harmful outcomes, like the displacement of BIPOC communities.

Ultimately, this is an emerging area of study. Additional analyses are needed to help with understanding how new development impacts neighborhood housing costs. And, equipped with that research, policymakers can make more informed decisions about how to maximize outcomes, accommodate growth, and promote a more affordable city.

*41 Darrell Owens, "The Look of Gentrification," The Discourse Lounge, published September 18, 2021, https://darrellowens.substack.com/p/the-look-of-gentrification?utm_source=url.*

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