

Scaling Heights: Affordability Implications of Zoning Deregulation in India

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Abstract

Does relaxation of zoning regulations substantially increase affordable housing or simply trigger a trickle of new luxury units? This paper exploits a rule-based relaxation of the regulatory cap on building height and floorspace provision, the Floor Area Ratio (FAR), to answer this question in Mumbai, India. Leveraging granular panel data and exploiting variation in time and space, we find that the reform increased housing supply in treated areas by 28%, implying an elasticity of housing supply to the FAR of 1.59. We document scale effects from the FAR relaxation are driven by within-building shared amenities in residential developments. Increased supply and scale economies facilitate an 18% decline in unit sizes, leading to a 29% decline in apartment prices that allows lower-income households to access housing. We develop a structural model of housing supply and demand that incorporates these floorspace trade-offs and shows that average home buyer incomes are 3.18% lower post-relaxation. Finally, we use the estimated model to show that a further 5% rule-based relaxation would amplify the scale economies and increase the affordability gains from deregulation by 1.7%. Taken together, our results show that concentrating FAR relaxation on given parcels can improve affordability.

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