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Zoning Laws Are Strangling Silicon

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Many of the best jobs for computer programmers are concentrated in the San Francisco Bay Area, where dozens of innovative software companies—Google, Facebook, Apple, Intel, Cisco, Adobe—are located. This concentration of innovative, rapidly-growing firms shows up in income statistics. For example, the average wage in the San Jose metropolitan area, around \$80,000, is among the nation's highest.

Yet strangely, the Bay Area as a whole has been growing slowly. Between 1990 and 2000, the population of the Bay Area grew by 12.6 percent, slower than the 13.2 percent growth rate of the nation as a whole. Between 2000 and 2010, the Bay Area grew by just 5.4 percent, barely half the 9.7 percent growth rate of the nation as a whole. Compare that to the Phoenix metropolitan area. Despite dramatically lower wages (the average is less than \$50,000) it attracted enough people to grow by a whopping 45 percent in the 1990s, and by 29 percent in the last decade.

A major factor is a severe shortage of housing in the Bay Area. Lots of people would like to live there, but the supply of homes hasn't kept up. As a result, the median home in the Bay Area cost about \$600,000 in 2009. This means that even though Silicon Valley firms offer some of the nation's highest wages, many families can still increase their standard of living by moving to cities like Phoenix, where the median home costs about a third as much.

This pattern has been with us for long enough that most of us just take it for granted. Everyone knows that large cities are outrageously expensive, and that families often have to move to less glamorous cities to find homes they can afford. But in his new book *The Gated City*, Ryan Avent argues that this complacency is misguided. Living in the heart of a large city will never be as cheap, per square foot, as living in an outer-ring suburb. But the enormous discrepancy in housing costs between Silicon Valley and the Sun Belt is mostly a result of government regulations, not the inevitably higher costs of urban life.

In the 19th Century, the most innovative cities tended to also be the fastest growing. New York, Chicago, and Detroit all grew by an order of magnitude in the late 19th and early 20th centuries as key American industries grew in them. Skyscrapers sprang up in these cities' downtowns. In New York and Chicago especially, developers built dense, walkable neighborhoods to accommodate the surging demand for housing. And this, in turn, helped keep supply in balance with demand and avoided large price increases.

This isn't happening in Silicon Valley. If [Wikipedia is to be believed](#), the tallest skyscraper in San Jose, the self-styled capital of Silicon Valley, is a pathetic 22 stories tall. Silicon Valley continues to be dominated by low-density, suburban patterns of development, even as housing prices have skyrocketed.

Why is this happening? In a nutshell, it's because high-density development is illegal. The city of San Jose has [350 pages of regulations](#) that place an effective ceiling on building density. The regulations include minimum lot sizes, minimum building setbacks, maximum building heights, minimum parking requirements, and so on. Of course, developers can apply for exceptions to these rules, but when they do so, city officials are besieged by what Avent calls NIMBY's ("Not In My Back Yard"), local activists who strenuously oppose having more people live or work in their neighborhoods.

Avent argues that this isn't just an aesthetic or lifestyle dispute between those who like the suburban lifestyle and those who prefer to live in cities. By strangling the growth of America's densest and most productive cities, restrictive zoning laws actually make the nation poorer. When an engineer leaves his \$80,000 job in Mountain View for a \$60,000 job in Scottsdale, he may wind up with a larger house and more disposable income. But the economy as a whole becomes less productive. In a free market, developers would be allowed to supply more housing in Mountain View so that engineer could enjoy a higher salary *and* an affordable home. And the phenomenon isn't limited to the Bay Area. Large, coastal cities like New York and Boston also have high wages but anemic population growth. Meanwhile, people flock to cities like Atlanta, Las Vegas, and Charlotte with lower wages but cheaper housing. Deregulation would not only allow more people to enjoy life in America's most attractive cities, but it would have a real impact on the nation's economic growth.

*The Gated City* is a [Kindle Single](#). It's just \$2, and short enough that you'll be able to finish it in an afternoon.

**Update:** Several alternative explanations have been suggested for the low heights of San Jose buildings. California is prone to earthquakes, the Southern end of the Bay may not have the kind of bedrock needed for tall buildings, and proximity to the San Jose airport may limit building heights. These are all good points, and the focus on the tallest San Jose building was a red herring on my part. But I think the broader point still stands: San Jose and Silicon Valley could be made a lot denser. This could be done by building some 50-story buildings, or by building a bunch more 20-story buildings, or by allowing more single-family homes to be replaced with apartment buildings or row houses. There's little doubt that developers would do some of these things if the law allowed them to.