

# Estimating the Economic Value of Zoning Reform\*

Santosh Anagol      Fernando Ferreira      Jonah Rexer

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## Abstract

We develop a framework to estimate the economic value of a recent zoning reform in São Paulo. Using a block-level regression discontinuity design, we find that developers request more permits in blocks with higher allowable densities. We incorporate these micro-estimates into an equilibrium model of housing supply and demand, finding that the reform produces a 1.9% increase in housing stock and a 0.5% reduction in prices, with substantial heterogeneity across neighborhoods. Welfare gains increase 4-fold once accounting for changes in built environment, and gains are larger for high-income and high-education families. However, homeowner house price losses overshadow all consumer gains.

**Keywords:** Housing supply, building restrictions, zoning reform, welfare gains.

**JEL Codes:** R0, H7, L8, K2.

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\*Santosh Anagol: [anagol@wharton.upenn.edu](mailto:anagol@wharton.upenn.edu), Wharton School, University of Pennsylvania. Fernando Ferreira: [fferreir@wharton.upenn.edu](mailto:fferreir@wharton.upenn.edu), Wharton School, University of Pennsylvania and NBER. Jonah Rexer: [jrexer@princeton.edu](mailto:jrexer@princeton.edu), School of Public and International Affairs, Princeton University. We are grateful for support from the Wharton Dean's Research Fund, and the Research Sponsors Program of the Zell/Lurie Real Estate Center. We thank Tom Cui, Anna Gao, Gi Kim, Renan Muta, Sophia Winston, Alexandru Zanca, and Holly Zhang for excellent research assistance. We also thank Rebecca Diamond, Rohan Ganduri, Edward Glaeser, Joseph Gyourko, Raven Mollo, and seminar participants at Imperial College Business School, Wharton Urban Lunch, European Urban Economics Association meeting, American Urban Economics Association meeting, NBER Summer Institute Real Estate, FGV-SP, Brazilian Society of Econometrics, LACEA-LAMES, NBER Public Economics, NTA meeting, Biennial Atlanta-Dallas Fed Conference, and the SITE conference at Stanford for helpful comments and suggestions.

# 1 Introduction

The global urban population grew from 33% in 1960 to 56 percent in 2019, and is predicted to reach 68 percent by 2050.<sup>1</sup> While these predictions are consistent with past trends in urban growth, there is considerable uncertainty and debate about the quantity and quality of housing the world's cities will be able to supply for their residents. Satisfying the predicted increase in demand to live and work in cities will only be possible with a strong supply response from developers who build residential structures. In most cities, however, the supply of buildings is highly regulated by local authorities - the so called "not in my back yard" NIMBYism - who can legally determine if and how developers can construct real estate structures (Glaeser, Gyourko and Saks, 2005; Gyourko and Molloy, 2015; Gyourko, Hartley and Krimmel, 2021).

Zoning restrictions, such as limits on the density of buildings, are generally associated with increases in the cost of living (Glaeser and Gyourko, 2018; Brueckner and Sridhar, 2012; Ding, 2013), greater segregation and reduction in economic convergence (Trounstine, 2018; Ganong and Shoag, 2017), and result in the loss of economic output (Hsieh and Moretti, 2019). The literature has primarily focused on cross-metropolitan area studies because of the variation in zoning rules across those geographies, with recent research focusing on block level differences around municipal boundaries (Turner, Haughwout and Van Der Klaauw (2014); Song (2021)).

However, cross-sectional estimation of causal effects of zoning regulations may have four major problems. First, zoning policies are often themselves determined by price levels (e.g. high price areas choosing to restrict building to maintain high prices) – so comparisons across different jurisdictions can plausibly conflate price effects with zoning reform effects.<sup>2</sup> Second, zoning policies are multi-dimensional and difficult to measure and compare across time and locations; for example cities can regulate land use, building density, lot size, height, footprint, and setbacks, among other characteristics.<sup>3</sup> Third, there is a dearth of micro data on the behavior of developers, which is critical to estimating supply responses to local land use regulations. Fourth, even when these three challenges are solved, it is difficult to trace out the impacts of actual zoning reforms on built environments, household sorting, and welfare given the many aspects of supply and demand for housing impacted by changes in regulation. For example, new housing construction may improve

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<sup>1</sup> United Nations Population Division. World Urbanization Prospects: 2018 Revision.

<sup>2</sup> Across city comparisons may also be plagued by correlations with other unobservables.

<sup>3</sup> The highly used Wharton Land Use Regulation Index (WLURI) is a summary measure of many land use restrictions collected via survey data. While WLURI is a useful proxy for overall land use regulation, it is difficult to translate causal effects of this index in to specific administrative land use parameters that might actually be reformed.

the quality of the housing stock relative to the old and depreciated stock of homes, reduce housing prices, and allow households to move from the suburbs to the city and closer to their workplaces. But densification may also lead to increases in congestion, construction of less desirable apartment units (as opposed to single family housing), and the sorting of households with different levels of income and education with difficult to predict demographic patterns, which is sometimes feared by proponents of NIMBYism.

Our paper contributes to the literature by studying how a major zoning *reform* can be leveraged to address these four challenges in the land-use and zoning literature. While cross-metro comparisons require a strong conditional independence assumption, our within-city approach leverages both variation over time in reform policies and block-level discontinuities in reform parameters. Importantly, detailed administrative data allow us to observe exactly which zoning parameters change and how they impact new construction across the city at fine spatial resolution. By combining a reform with microdata on permitting activity, we can directly observe how developers respond when land-use restrictions change. Finally, we estimate an equilibrium model of housing supply and neighborhood demand in order to separately identify several distinct channels by which changes in housing regulations affect the welfare of city residents.

We focus on São Paulo, Brazil, which is the 4th largest metropolitan area on earth with a population of 21 million residents. The city of São Paulo, informally considered the New York City of Brazil, implemented a detailed, block-by-block, change in real estate regulation in 2016. The reform centralized the ability to set density parameters previously under control of neighborhoods, and had the general goal of providing more dignified housing for its residents and allowing more densification along some transportation corridors.<sup>4</sup> In practice each city block was assigned a maximum built-area-ratio (BAR) - the ratio of constructed square meters per square meter of land area - which fundamentally defines the density of units that developers could develop on a given land parcel.<sup>5</sup> On average, the maximum BAR in the city's approximately 45,000 blocks increased from 1.54 to 2.09, allowing 36% more construction for a given lot size, and 45% of the city blocks had a

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<sup>4</sup> The São Paulo reform's focus on increasing housing density near transportation corridors is similar to a recently failed reform aiming to increase housing density along California's public transit system (Dougherty, 2020). Mumbai's 2034 development plan also originally included, but then removed, plans for allowing high density construction near metro and commuter rail stations (Ashar, 2018).

<sup>5</sup> We use the term BAR as it corresponds directly with term used in Sao Paulo for this concept. It is closely related to the "FAR" ("floor-to-area"), "FSI" ("floor-space index") and "FSR" ("floor-space-ratio") metrics used in other parts of the world. See Brueckner and Singh (2020) for recent measurements for "FAR" stringency in five major U.S. cities. Sao Paulo has a unique set of rules defining what counts as constructed area; it includes livable space but excludes hallways, elevator shafts and in some cases mezzanine lobbies and swimming pools. Given these idiosyncracies we prefer to use the "BAR" terminology.

maximum BAR increase of 1 or more.<sup>6</sup> This reform gives us unique variation in zoning restrictions over time – so we can observe how developers respond to zoning changes – and variation over space (city blocks) – which allows us to control more precisely for the endogenous determinants of zoning policies such as prices. We also control for other zoning parameters observed at the block level, such as regulations on lot size, building footprint, setbacks, and height. Moreover, São Paulo has an unusually rich set of administrative data on building permits, the built environment, demographics, commuting patterns and wages to allow for detailed tracking of the zoning reform’s impacts and estimation of its welfare consequences.

We begin our analysis by leveraging these block-by-block changes in BAR policy to estimate the supply response of developers. We implement a boundary discontinuity design where each block is categorized as either a treatment block, defined as a block where BAR increased in the 2016 reform, or a control block, a block where BAR stayed constant or decreased after the reform.<sup>7</sup> For treatment blocks, our running variable is defined as the distance to the nearest control block, and for control blocks our running variable is defined as the distance to the nearest treatment block. The boundary discontinuity design focuses on the variation in BAR between nearby treatment and control blocks,<sup>8</sup> and balance tests suggest that the typical endogenous determinants of zoning policy, such as prices and density, are indeed balanced at the cut-off. We further estimate our boundary discontinuity before and after the reform (in the spirit of a “difference-in-discontinuities” design), so our identification exploits both the cross-sectional boundary discontinuity as well as the change in policy over time.

We find, in our preferred specification, that the 1.4 BAR point increase at the cut-off between nearby treatment and control blocks causes an increase of .003 multi-family dwelling permits filed per block per quarter, which is a sixty six percent increase in permits per unit of BAR relative to nearby control blocks. The differences between treatment and control blocks emerge approximately one year after the zoning reform was passed, which is plausible given the time it likely takes for developers to create project plans, acquire land, and so on. We find no effect of a BAR increase on single-family home permits, which is consistent with the BAR change allowing greater development of larger structures. We also estimate a spatial spillover model (following a strategy similar to Diamond and McQuade (2019)). We find little evidence of treatment effects on control

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<sup>6</sup> See Tabarrok and Cowen (2018) for a discussion of the floor space index parameter in India, similar to the BAR parameter, and its importance in determining housing availability in Mumbai.

<sup>7</sup> Results are similar when only using blocks with constant BAR as control group.

<sup>8</sup> The spatial scale of the data allow for hyper-local comparisons, with discontinuity bandwidths typically below 300 meters.

blocks near the boundary discontinuity, suggesting little substitution of projects from control to treatment blocks. We also find similar sized effects for treatment blocks near and far from the boundary, suggesting muted agglomeration effects so far.

We then incorporate these developer responses into an equilibrium model of supply and demand in order to estimate the welfare effects of the 2016 zoning reform, and to evaluate other more aggressive counter-factual zoning reforms. In our supply model, developers apply for permits as a function of expected profits, which are empirically proxied with prices, neighborhood features, and regulatory zoning constraints. We estimate this model at the neighborhood level and use a Poisson model in order to avoid the problem introduced by log-linear models when many locations have zero permits. We instrument for BAR constraints using the boundary discontinuity-based variation, while at the same time controlling for other regulations, such as rules limiting the size of a new building's footprint (i.e. the "shadow ratio"), minimum setbacks, and height limits. We also instrument for prices using localized demand-side Bartik shocks as in (Baum-Snow and Han, 2021). In this specification we estimate that a max BAR increase of 1 roughly doubles the number of permits, similar to our block-level boundary discontinuity model.

On the demand side, individuals maximize utility when choosing city neighborhoods as a function of prices, location features, access to employment opportunities, and commuting, allowing for residents to value both positive and negative aspects of more densification. To estimate the model, we use survey data on 24,800 São Paulo metropolitan statistical area households which includes information on demographics, place of residence, and place of work. We combine this information with neighborhood-level listing price data from a multiple listing service (MLS). To estimate the elasticity of location choice to price we instrument listing prices by geographic features in a ring outside the commuting zone; this strategy follows Berry, Levinsohn and Pakes (1995) and rests on the assumption that these outside features impact local prices through competition but do not directly impact the utility of individuals living in a given zone. To estimate consumers' preference for being close to high paying jobs, we follow Tsivanidis (2019) and define an index of residential commuter access (RCMA) which measures a location's average travel time to zones with high paying jobs. Finally, utility includes other important neighborhood features, such as travel time to the household head's current place of work, age of buildings, number of units per building, density of neighborhood, share of households with a paved road, average zone income, and share of zone adults with a college degree. Preferences for all of these features are allowed to vary according to an individual's demographic characteristics. We model preferences using a

multinomial logit framework and estimate the parameters with a two-stage maximum likelihood procedure, as in Bayer, Ferreira and McMillan (2007).

We find negative elasticities of demand with respect to both prices and travel times, and a positive elasticity for RCMA; conditional on price and travel times, household prefer to live near areas with more high paying jobs. Moreover, consumers dislike old housing stock and greater density within a building, while valuing density in the broader neighborhood. The model also finds a large amount of heterogeneity in preferences over all amenities. Perhaps the most interesting heterogeneity is that high education and high income households strongly prefer to live in neighborhoods with more high education and high income residents, indicating a high degree of demographic sorting.

With supply and demand parameters in hand, we next estimate counterfactual welfare and distributional consequences from the 2016 reform. The baseline scenario takes zoning parameters from the pre-2016 period. Imposing the new 2016 zoning map on our supply equation leads to a supply shock generating new construction in different areas throughout the city.<sup>9</sup> We then apply a market clearing condition, which delivers an equilibrium price vector; this in turn leads to changes in the neighborhood demographic composition and built environment variables via the demand and supply parameters. We also use equilibrium changes in population to update average travel times to work, which may rise after upzoning due to the congestion costs of increased density. We then evaluate households' choice probabilities and utility functions at the new equilibrium in order to estimate the welfare effects, i.e., consumer surplus coming from the expected utility of having access to neighborhoods with lower prices and new characteristics.<sup>10</sup>

We find that the extra flow of construction from the 2016 reform represents only a 1.9% percent net increase of the total housing stock in the city, leading to 0.5% reductions in prices on average, and consequently small gains in welfare. But this average result masks some heterogeneity; neighborhoods with the largest BAR shocks see more construction and lower prices. The largest construction increases and price decreases are 17.1% and 4.6%, respectively. We also find that college-educated and higher income households gain the most from the reform, especially because more of those families can now move from the suburbs to the more central parts of the city. As such, demographic change in the city is limited even under more aggressive reform counterfac-

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<sup>9</sup> The 2016 zoning reform produces short term changes in permits, and we use longer term data to estimate a function that translates permits to construction changes.

<sup>10</sup> Our preferred model allows for the city population to grow as more housing is built, but we also test a model that assumes a closed economy. Details are shown in Section V.

tuals, since those who migrate are positively selected and therefore resemble incumbent residents.

Interestingly, welfare gains from price changes increase more than 4-fold once we account for changes in the built environment, as density increases and the age of housing units falls. This suggests that a fair amount of the economic value of zoning reforms comes through the presence of a newer housing stock and individual preferences for densification. Congestion costs, in contrast, only reduce aggregate welfare gains by 1.3%. Counterfactual simulations of more aggressive zoning reforms - doubling allowed densities in upzoned neighborhoods - produce much larger gains in welfare (1.63% of city GDP). Since the BAR averages implemented by São Paulo in 2016 are a third or less of what is allowed in denser cities, such as Singapore and Hong Kong, local policymakers still have substantial room to implement more aggressive densification strategies that improve resident welfare.

Finally, we compare the consumer surplus with the nominal house price losses suffered by both homeowners and landlords. Those losses are about 16 times larger than consumer gains, which may explain the lack of homeowner support for more dense construction. We also measure other effects of the reform, such as producer surplus (i.e. gains to real estate developers), welfare for new incoming residents, and potential changes in productivity due to more agglomeration in Sao Paulo (i.e. the gain from re-allocating workers from lower productivity places to the highly productive Sao Paulo metropolis). The producer surplus is the largest among those factors, but even the aggregation of all potential gains still do not match the nominal house price losses faced by existing real estate owners.

Our work is at the intersection of many literatures. In addition to the zoning literature cited above, other papers have focused on the impact of geographic constraints on housing supply (Saiz, 2010; Baum-Snow and Han, 2021). There is also a growing literature on structural models of housing supply. Murphy (2018) estimates a model of housing supply with a focus on the role of construction costs, while Paciorek (2013) studies the relationship between supply constraints and price volatility. Calder-Wang (2021) estimates the welfare of New York City residents given changes in availability of rental units due to the expansion of Airbnb.

Another related literature focuses on understanding the internal structure of cities using detailed micro data on the built environment and sorting. Harari (2020) investigates how city shapes in India affect transit accessibility, land use regulations, and city growth. Ahlfeldt et al. (2015) estimate a model of internal city structure to quantify the effect of densification. A few recent papers study policy reforms within cities to estimate the value of urban policies and amenities.

Allen, Arkolakis and Li (2016) studies optimal city structure, and apply their theoretical results to evaluate Chicago's existing zoning system. Tsivanidis (2019) estimates how new transit lines impact worker sorting and welfare in Bogota, and Balboni et al. (2020) estimates the impact of a new bus rapid transit system in Dar Es Salaam.

This paper also fits in to three other broad literatures. First, there is a large literature on the economics of urban density and agglomeration effects recently summarized by Duranton and Puga (2020). Those authors note that future progress in this literature could encompass the dynamics of building construction and raise empirical standards in the identification of causal effects, both accomplished in our work. Second, there is a growing literature studying how housing supply will respond in the face of larger demand for cities, recently summarized in Brueckner and Lall (2015); our paper provides a first complete evaluation of a zoning reform in a developing country city context. Finally, Epple, Gordon and Sieg (2010) and Combes, Duranton and Gobillon (2021) directly estimate production functions for housing. Our paper contributes to that body of work by estimating in detail how developers respond to zoning reforms at very granular geographies, credibly dealing with the endogeneity of zoning parameters.

## 2 History of Zoning in São Paulo

São Paulo has had three major zoning reforms in the past fifty years: 1972, 2004 and 2016. All of these reforms created "zone types" such as "Mixed Residential Use," with each zone type assigned a set of building parameters. Each of the city's blocks are assigned to a zone type, and the zone type designation determines the block's building parameters. The primary building parameter set in each reform is the built-to-area ratio (BAR), which is the ratio between the computable area of the building and the lot size, and fundamentally determines density of units developers can build given a land parcel.<sup>11</sup> Each block is also assigned to a building usage, such as residential, commercial or industrial purposes. Most zone types allow multiple building usages, but there are some that require only certain building types.

São Paulo's first city wide zoning regime was established in 1972 in response to rapid, haphazard, urban growth. Poor areas lacked enforcement of building rules allowing developers to build at their own will (Saconi and Entini, 2013). Wealthy neighborhoods, such as Jardim América, had

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<sup>11</sup> Other auxiliary building regulations, such as the shadow ratio - which is the ratio between the projected area of the building and the lot size - minimum and maximum lot sizes, setbacks, and heights have less variation over time and will be used as controls in our main supply model.



rigorous regulation implemented by private developers.<sup>12</sup> The 1972 zoning law primarily aimed to preserve the architecture of richer neighborhoods, while guiding the city's growth towards the periphery (Giaquinto et al., 2010); this law also established that no new building could have a BAR above 4. However, the majority of urban land resided in zones with a maximum BAR of one.

São Paulo enacted a Master Plan in 2002 and a new Zoning Law in 2004, primarily in response to new federal laws mandating cities to have urban master plans. The 2004 Zoning Law had two features relevant for our analysis. First, the determination of specific building parameters, such as BAR, was decentralized to the "subprefeitura" or neighborhood level (São Paulo has 32 subprefeituras). In particular, the city would determine the zone type of each block, but the same zone type could have different building parameters based on the block's subprefeitura. Second, the city expanded the BAR parameter scheme to include minimum BAR, basic BAR and maximum BAR levels, each of which were chosen by the subprefeitura government for each zone-type within the subprefeitura. The law also required developers to pay extra fees to build above the newly established basic BAR levels.<sup>13</sup> The 2004 zoning reform also legislated, at the city level, that each district (a smaller unit than a subprefeitura with 96 total in the Sao Paulo municipality) - would have a limited stock of square meters above the basic BAR that could be constructed. Once a given district exhausted its available capacity above the basic BAR, no further construction could occur above the basic BAR level.

The 2016 zoning reform was initiated by Workers Party mayor Fernando Haddad in 2014 with the creation of a new city Master Plan. The stated goals of the reform were to provide dignified housing, guide urban growth, improve urban mobility, improve life in the neighborhoods, promote economic development, incorporate an environmental agenda, and preserve cultural heritage. A key feature of this reform was to standardize building parameters across the whole city by assigning a fixed set of building parameters to each zone type. Under the new reform blocks were assigned to a zone type, and then the city-wide building parameters associated with that zone type would be applied consistently across the city. This reform removed the power of local subprefeitura governments to set BAR and other building parameters within their jurisdictions. In addition to that, it simplified and centralized the BAR regulation, by implementing a Basic BAR of 1.0 in the entire city. The 2016 reform also eliminated the district-level maximum amounts that

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<sup>12</sup> For example, the Jardim America neighborhood was administered by a British developer called Companhia City.

<sup>13</sup> A building developed with a BAR between the basic and maximum BAR was required to pay the so called "onerous grant" fee, charged per square meter built above the basic BAR level. Buildings developed between the minimum and basic BAR did not have to pay any extra fees.

could be built above the basic BAR level.

A main idea in the 2016 law was to group zone types in to three major groups corresponding to a particular development strategy. Every zone type was labeled as one of the following categories: transformation, qualification, or preservation. The goal in transformation zones was to promote higher urban density, in terms of both residential and non-residential structures, near the city's main transportation corridors. The aim was to reduce the city's traffic and bring people closer to their jobs by improving land use in areas closer to medium and high public transportation networks, such as train, subway, monorail, and bus corridors. The objective in qualification zones was to improve life in residential neighborhoods by favoring moderate urban density; the standard maximum BAR for these zones was set at 2.0 and they implemented a building height restriction of 28m. Zones were designated "preservation" status with the purpose of preserving the environment and cultural heritage of the city. Figure A1 shows a color map of the 2016 reform, with the transformation zones in maroon, qualification zones in gray and yellow, and preservation zones in green. Figure A2 displays the striking detail of the block-by-block land use regulation in the middle class neighborhood of Jabaquara.

The 2014 Master Plan and associated 2016 zoning reform are valid for 16 years with a revision scheduled in 2021. Given that much of the predicted worldwide urban growth will occur in developing countries, it is interesting to test whether a zoning reform of this type, in a developing country city, actually leads to changes in the built environment and improvements in resident welfare.<sup>14</sup>

## 3 Data

### 3.1 Zoning data

Zoning data comes from the Cidade de São Paulo Desenvolvimento Urbano. We geo-reference and digitize maps of zoning boundaries at the block level for 2004 and 2016; there are 22 zone types in 2004, and 38 in 2016. In total, we are able to match 45,082 of São Paulo's city blocks to a zone-type, or 96% of the city's 46,987 blocks. We then match these zone-types to the relevant minimum and maximum allowable density parameters at the neighborhood and zone level. From

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<sup>14</sup> The reform may be toothless if, for example, developers can evade zoning rules via paying bribes – in such an environment zoning rule changes would have little impact as even existing rules are not enforced. Also, it is possible that zoning rule changes translate in to only minor built environment changes because of other market frictions, such as problems in land acquisition (Bryan et al., 2017) or developer credit constraints.

this, we calculate the maximum allowable BAR. In some cases, these parameters vary within a zone-type depending on the size of the lot. In these cases, we define the maximum allowable density parameter as the maximum of all possible values.<sup>15</sup>

We obtain the maximum BAR values in both periods for 43,250 city blocks.<sup>16</sup> From this data, we define treatment blocks, control blocks, and the running variable for our boundary discontinuity design. A treatment block is defined as a block whose maximum allowable BAR increased from the 2004 zoning regime to the 2016 zoning regime. A block is designated as control if its BAR declined or stayed the same between the 2004 and 2016 reform.<sup>17</sup> More than 50% of all blocks experienced an increase in maximum BAR.

The underlying BAR variation that determines the treatment/control status for each block is mapped in Figure 1, along with the borders of the city's subprefeituras. There is a somewhat general pattern of blocks in the outskirts of the city experiencing positive changes in maximum allowable BAR, and blocks within the central regimes experiencing negative changes or no change in maximum allowable BAR. However, there are many blocks in the central area that received positive (green) changes in their maximum allowable BAR - typically along major transportation corridors. Figure A3 presents binned scatter plots on the relationship between block level characteristics (x-axis) and the change in maximum allowed BAR from the 2004 to 2016 zoning regime. On average, blocks with lower levels of BAR in the 2004 regime received greater increases in allowable BAR. We also see that blocks with higher residential shares of constructed area received greater BAR increases. Blocks with greater density (as measured by the log constructed area per square kilometer) received on average lower changes in BAR, and blocks with greater average land values also received lower changes in BAR.

### 3.2 Permitting data

Data on building permits were scraped from the Urbanism and Licensing Center of the City of São Paulo, or SMUL.<sup>18</sup> Building Permit data is useful in tracking where and at what volume de-

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<sup>15</sup> In defining the maximum BAR before 2016, we account for the fact that some blocks are in districts where the allowed capacity for building above the basic BAR level has been exhausted. In these blocks, the "effective" BAR prior to the 2016 reform is the basic BAR level.

<sup>16</sup> Note that this is less than the 45,082 city blocks for which zoning information is available. These missing blocks are primarily parks, municipal areas, and bodies of water. The remainder are cases in which zoning information was available, but BAR parameters were missing or not relevant for the particular category.

<sup>17</sup> We find similar results if we define control blocks only as those whose BAR stayed the same. See Appendix Figure A9.

<sup>18</sup> <https://www3.prefeitura.sp.gov.br/deolhonaobra/Forms/frmConsultaSlc.aspx>. SMUL also handles issues related to zoning and land use for the city of São Paulo and is part of the development of the comprehensive plans

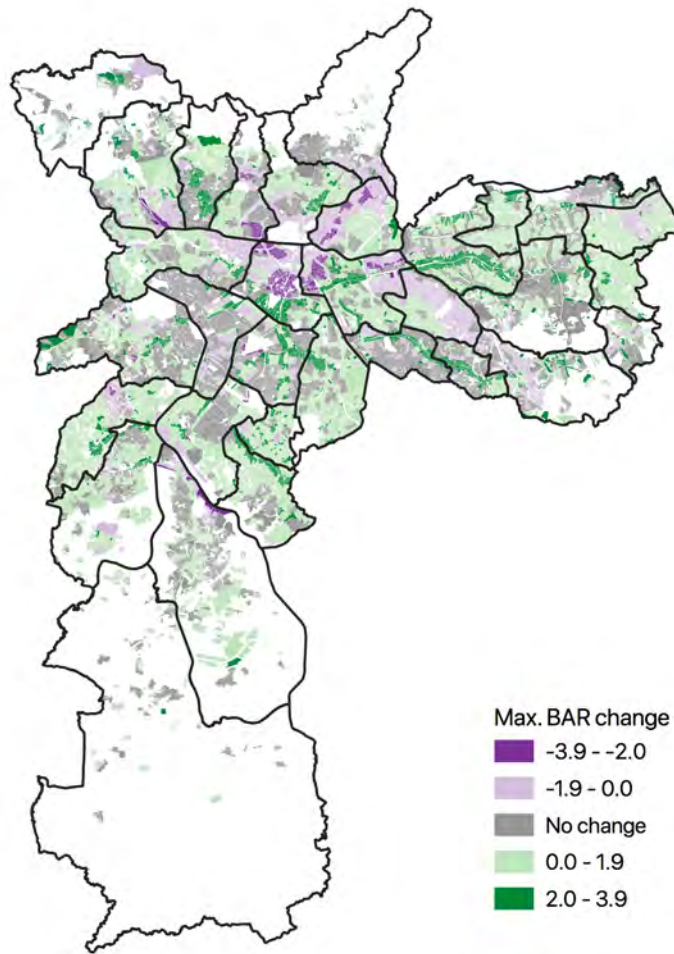


Figure 1: Map of Change in Maximum Allowed Built Area Ratio (BAR) from 2004 to 2016 Zoning Regime

velopment is taking place in the city of São Paulo. Since the year 2000 SMUL has been publishing all the filed permits that go through their office, this includes permits for new buildings, demolition, installation of security systems, and certificates of conclusion, among many other types of building related permits. There are over 50 different types of permits issued through SMUL, the majority of which are related to the construction of new buildings. The data is organized by quarter and by year of its filing and includes information about which region of the city the permit that have influenced zoning changes in 2004 and 2016.

is in, the address, the zoning and land use classification, as well as the engineers, architects, and owners leading the project.

Residential building permit filing data from 1997-2020 forms the basis for our key outcome variables.<sup>19</sup> We obtain data on approximately 30 thousand total residential permits, of which approximately 85% are multifamily buildings and 15% are single family dwellings. We then aggregate the number of permits and the number of units at the quarter-block level, yielding a panel of 3,195,116 quarter-block observations. The main outcome variables are the quarterly count of total new building permits for single and multifamily buildings, plotted in Figure A4. Permitting activity was much larger in the mid-2000s, and declined since 2014 due to the national economic and political crisis. Interestingly, multifamily permits filings more than doubled since the approval of the 2016 reform.

Our data also includes commercial building permits, such as offices, hotels, retail, and education facilities. Figure A5 plots the number of commercial building permits over time and reveals a very small and declining number of permits after the 2016 reform. Since the main economic impact of the reform was on residential permits, in the rest of the paper we mostly focus on those outcomes and relegate some commercial permit estimates to the appendix.

### 3.3 IPTU data

Information on the stock of buildings in São Paulo, including constructed area, lot sizes, assessed construction value, number of units per building, and assessed land value comes from the IPTU property tax data, which we obtain annually from 1995 to 2019. In 2016, the year of the zoning reform, this data covers 3,316,608 individual tax paying units in 1,582,532 unique buildings. The construction and land values are assessed values produced by the São Paulo property tax assessor office, and form the basis for annual property tax payments; these values are only indirectly based on market transactions. We collapse this data to the block-level to obtain block-level average lot area and constructed area in  $m^2$ , as well as mean land value and construction value per  $m^2$ . We also obtain the share of lot and constructed area with residential vs. commercial designation by the property tax authority, as well as the total number of units and buildings in each block. This information is available in the pre-2016 period for a total of 43,990 São Paulo city blocks, or 94%.

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<sup>19</sup> Projects that were approved before 2000 are not listed in this data set although if a request for a permit was issued prior to the year 2000 and approved afterwards, it does appear in the data set.

### 3.4 Listing Price Data

Given that the IPTU value data is based on assessments as opposed to market values, we also collect apartment listing price data from the online marketplace Properati. The data has approximately 200,000 buildings listed for sale and for rent in 2016. Each listing in the system contains the price, the type of transaction (rent or sale), the location, the type of unit (i.e. apartment, house, office, etc.), and a general description of usage (residential, commercial, bare-land or non-specified). The IPH (Hiperdados-Properati Index), which used data from Properati, was the most complete real estate pricing indicator in Brazil until it was sold and renamed to Casafy (who no longer published the data).

### 3.5 RAIS Data

We measure labor market economic activity at the block level using the total formal sector wages paid to workers whose firm address is within a block. We obtain this variable from the RAIS data, which is individual level monthly wages data for all formal sector workers in São Paulo. We aggregate the individual monthly wage data up by year, and then further aggregate at the block level to obtain total annual wages paid per block. This data is available from 2000-2019.

### 3.6 Commuting Zone Survey Data

We use commuting survey data from the "Pesquisa Origem e Destino 2017" survey.<sup>20</sup> The commuting survey covered São Paulo metropolitan statistical area households and includes information on demographics, place of residence and place of work. We take as our sample the 24,800 households for which the household head is working. The survey was stratified by commuting zones, and for this employed sub-sample we obtain 492 commuting zones within the São Paulo metropolitan area (i.e. including both the São Paulo municipality that we study as well as the surrounding suburbs). 329 of these zones are within the municipality itself. From this data, we take individual home and work locations, which we use to calculate commuting distances, household head education and age, household size and total monthly income, and dwelling ownership status. We also use this data to estimate several commuting zone-level characteristics, including average income, education, and the share of paved roads.

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<sup>20</sup> The survey data is available at <http://www.metro.sp.gov.br/pesquisa-od/>.

## 4 Border Discontinuity Design and Results

### 4.1 Empirical strategy

Our primary identification strategy to estimate the impact of zoning reform is to compare the evolution of permitting activity in geographically close blocks with different treatment status. To construct regression discontinuity plots we begin by defining as “treated” all blocks in zones that experienced an increase in maximum allowable BAR as a result of the 2016 reform. Control blocks are those that fall in zones which experienced either no change or a reduction in maximum BAR. Then, for each treatment block, we calculate the distance in kilometers to the nearest control block. Distance is calculated from the block’s centroid to the edge of the nearest block in the other group. This distance defines the running variable in our border discontinuity design for treatment blocks. The running variable for control blocks is the distance to the nearest treatment block; we define this distance as negative. Our boundary discontinuity design focuses on outcome comparisons between control blocks with small absolute values of the running variable (i.e. control blocks near to treatment blocks) and treatment blocks with small values of the running variable (i.e. treatment blocks near control blocks).<sup>21</sup> In the Appendix we report the number of blocks in each of these 50 meter bins, and find no discrete jump around the cut-off (Figure A6).

Our key identification assumption is that, in the absence of the 2016 zoning reform, outcomes would have evolved similarly across the zoning borders at which the change in maximum BAR switches from positive to non-positive. To corroborate this assumption Figures A7 and A8 assess the covariate balance of existing structures and economic activity across treatment and control blocks in the year prior to the zoning reform. The x-axis groups blocks within 50 meter bins away from the cut-off, and the y-axis plots the binned-average change in covariates. We find relatively small jumps at the zoning cut-off for total land and constructed area, and no difference in average assessed value of land and constructed are. The share of buildings categorized as residential and commercial also does not appear to change discretely at the zoning border.<sup>22</sup>

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<sup>21</sup> We investigated a “bunching” strategy where we estimated how the fraction of new buildings built at exactly the maximum allowable BAR changes with the reform; in principle such a strategy could be used to estimate the marginal increase in constructed area resulting from an increase maximum BAR. The primary challenge is that neither the permit nor IPTU data report the ‘computable’ built area measure required to exactly calculate a building’s BAR. Instead these data just report constructed area. Given the bunching strategy relies on exact measures of BAR, we chose not pursue this approach. We do have a strong sense that maximum BAR limits were binding throughout the city, from the fact that almost all of the allowed building up to maximum BAR levels was utilized prior to the reform.

<sup>22</sup> Appendix Table ?? presents regression discontinuity estimates of these differences. Out of twelve comparisons we find two variables (block density and average constructed value per meter-squared) are statistically significant at the 10% level or higher. Based on the figure it appears the cubic may be over-fitting the block density pattern, and the

The core treatment variation we wish to focus on is the change in maximum allowable BAR in nearby treatment and control blocks. Figure 2 shows how the change in BAR from the 2004 to 2016 zoning regime varies as we move towards the 2016 zoning borders from control blocks to treatment blocks. City blocks just to the left of the cut-off experienced an approximate .1 decrease in their maximum allowable BAR, while blocks just to the right of the cut-off experienced an approximate 1.3 increase in their maximum allowable BAR. In appendix Figure A9 we show that the first stage is almost identical when restricting the control group to blocks with no change in maximum BAR.<sup>23</sup>

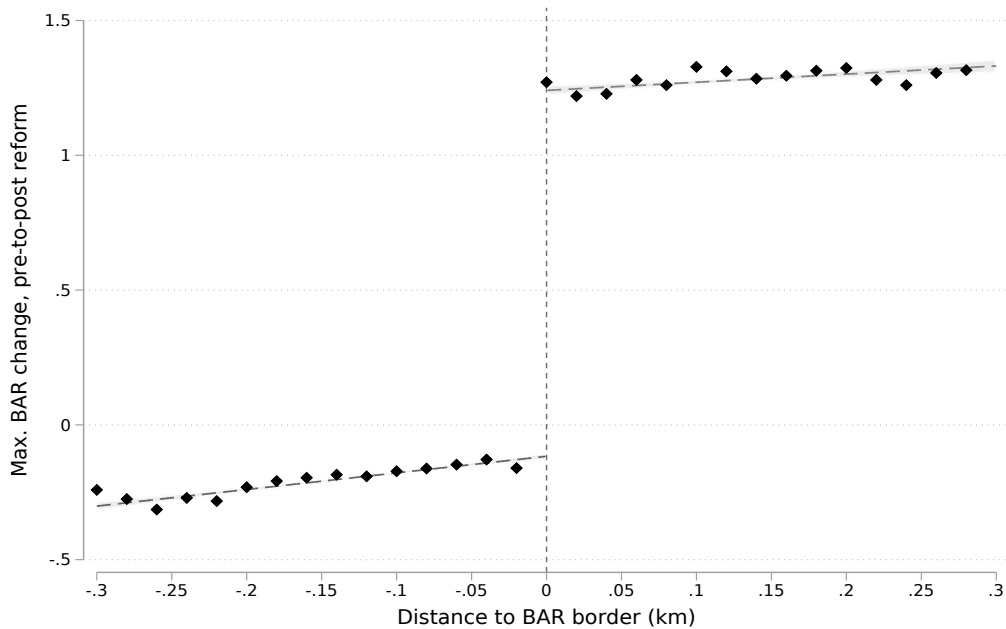


Figure 2: Built Area Ratio Change, Pre-to-Post 2016 Reform

This figure plots the change in the maximum BAR allowed for blocks within a .02 kilometer bin of our running variable. Control blocks are to the left of the dashed vertical line; treatment blocks are to the right. For control (treatment) blocks the running variable is the distance to the nearest treatment (control) block. A treatment block is defined as a block whose max BAR increased in the 2016 reform. Control blocks are those whose max BAR declined or stayed the same in the 2016 reform. See Appendix Figure A9 for this figure using only control blocks whose max BAR stayed the same.

average constructed value per meter-squared difference is very small relative to the mean.

<sup>23</sup> Figure A10 reports the average maximum BAR values in our treatment and control blocks before and after the 2016 reform, not just the change in max BAR shown in Figure 2. Treatment blocks had lower maximum BAR values prior to the reform relative to control blocks, and have higher maximum BAR values after the reform. The pre-existing differences prior to the reform are to some extent mechanical, in that treatment blocks are defined as those which experienced an increase in BAR in the 2016 reform. But the fact that max BAR did differ prior to the reform, even in a narrow bandwidth around the border, strongly suggests that we should focus on how outcomes change before and after the reform, as opposed to just analyzing a cross-sectional border discontinuity design after the reform.



To estimate the treatment effect of higher BAR levels, we consider the following regression discontinuity model:

$$y_{ij} = \beta 1\{x_{ij} > 0\} + f(x_{ij}) + \delta_j + \epsilon_{ij} \quad (1)$$

where  $y_{ij}$  is an outcome in block  $i$  which is located in subprefeitura  $j$ ,  $x_{ij}$  is the value of the running variable for block  $i$  in subprefeitura  $j$ ,  $\delta_j$  is a subprefeitura fixed effect, and  $\epsilon_{ij}$  is an error term.<sup>24</sup> The indicator function  $1\{x_{ij} > 0\}$ , “Treat BAR”, is our main independent variable of interest, and  $\beta$  is our estimate of the treatment effect. The function  $f(\cdot)$  is a polynomial fully interacted with  $1\{x_{ij} > 0\}$ . We cluster standard errors at the commuting zone level; there are 329 commuting zones in our data so this clustering is substantially more conservative than clustering at the block level. Commuting zones are also a natural level to cluster given this will be our unit of analysis in our supply/demand model to estimate welfare effects.

Table 1 reports RD point estimates and standard errors for our “first stage” using four versions of this specification with change in Max. BAR as the outcome variable. Column 1 compares all treatment versus control blocks (i.e. only includes the indicator  $1\{x_{ij} > 0\}$  in the model), column 2 adds a linear control of the running variable (and interacts it with a treatment indicator), columns 3 adds quadratic controls, and column 4 adds cubic controls. RD estimates show a stable 1.4 point estimate. In Panel B of table 1 we add subprefeitura fixed effects, so that all variation comes from changes within subprefeitura. Estimates remain practically unchanged, suggesting that the reform treatment is not driven solely by pre-reform differences in how different neighborhoods controlled zoning parameters.

## 4.2 Reform Effect on Building Permits

We now use the same set of treatment and control blocks to estimate the causal effect of the greater allowable BAR on building permits. Figure 3 splits our permit outcome variable into multifamily permits (top two figures) and single family permits (bottom two) figures. The panels show averages of the outcome variable by bins of .02 km distance to the closest border, i.e., the closest block from opposite treatment status. The outcomes represent average quarterly building permits in a block, and the left panels show pre-reform data (2012q2 - 2016q1). Focusing on multifamily permits first, the pre-reform panel shows a small difference in permits at the discontinuity.

<sup>24</sup> Figure 1 shows São Paulo’s subprefeituras outlined in black.

Table 1: RD First stage

Outcome	Maximum BAR change			
	(1)	(2)	(3)	(4)
<i>Panel A: No sub-prefeitura FE</i>				
Treat BAR	1.519*** (0.029)	1.426*** (0.029)	1.365*** (0.031)	1.354*** (0.031)
Specification	Base	Linear	Quadratic	Cubic
Observations	43231	43231	43231	43231
Mean of Dep. Variable	-0.153	-0.153	-0.153	-0.153
<i>Panel B: With sub-prefeitura FE</i>				
Treat BAR	1.516*** (0.025)	1.453*** (0.027)	1.386*** (0.029)	1.355*** (0.030)
Specification	Base	Linear	Quadratic	Cubic
Observations	43225	43225	43225	43225
Mean of Dep. Variable	-0.153	-0.153	-0.153	-0.153

Standard errors clustered by commuting zones in parentheses. Specification refers to the order of the polynomial for the running variable, which is distance to the RD boundary. The polynomial is always interacted with the treatment indicator. Sample is all city blocks with zoning information. Mean of dependent variable calculated for control blocks within 0.1 km of the BAR boundary. \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ .

In contrast, the post-reform period show that treatment blocks just on the higher BAR side of the zoning border experienced approximately 0.003 more permits issued relative to the control side of the border (0.007 versus 0.004). The higher BAR allowance causes a doubling of average multi-family permits filed per quarter relative to control blocks.<sup>25</sup>

Interestingly, the zoning treatment effect on permits is concentrated in multi-family units. The bottom two panels of figure 3 show that not only are total number of single-family permits smaller in both pre- and post-reform periods, but also that there are no differences around the spatial discontinuity. Overall, the causal effects of the reform are concentrated in multifamily permits, consistent with taller buildings being more sensitive to BAR constraints.

Both pre- and post-reform figures show a downward slope in average quarterly permitting activity as we move from deeper in the control area towards the cut-off, and then a slightly positive slope from the cut-off towards deeper in to the treatment area. We find a similar pattern in the total number of buildings per block in the 2015 IPTU data (see Figure A7).

<sup>25</sup> The first two bins to the right of the cut-off are lower than the nearby bins in both the pre- and post-reform multi-family plots. We note that the first bin to the right has a substantially smaller sample size than other bins (Appendix Figure A6), and is therefore likely to be more noisy.

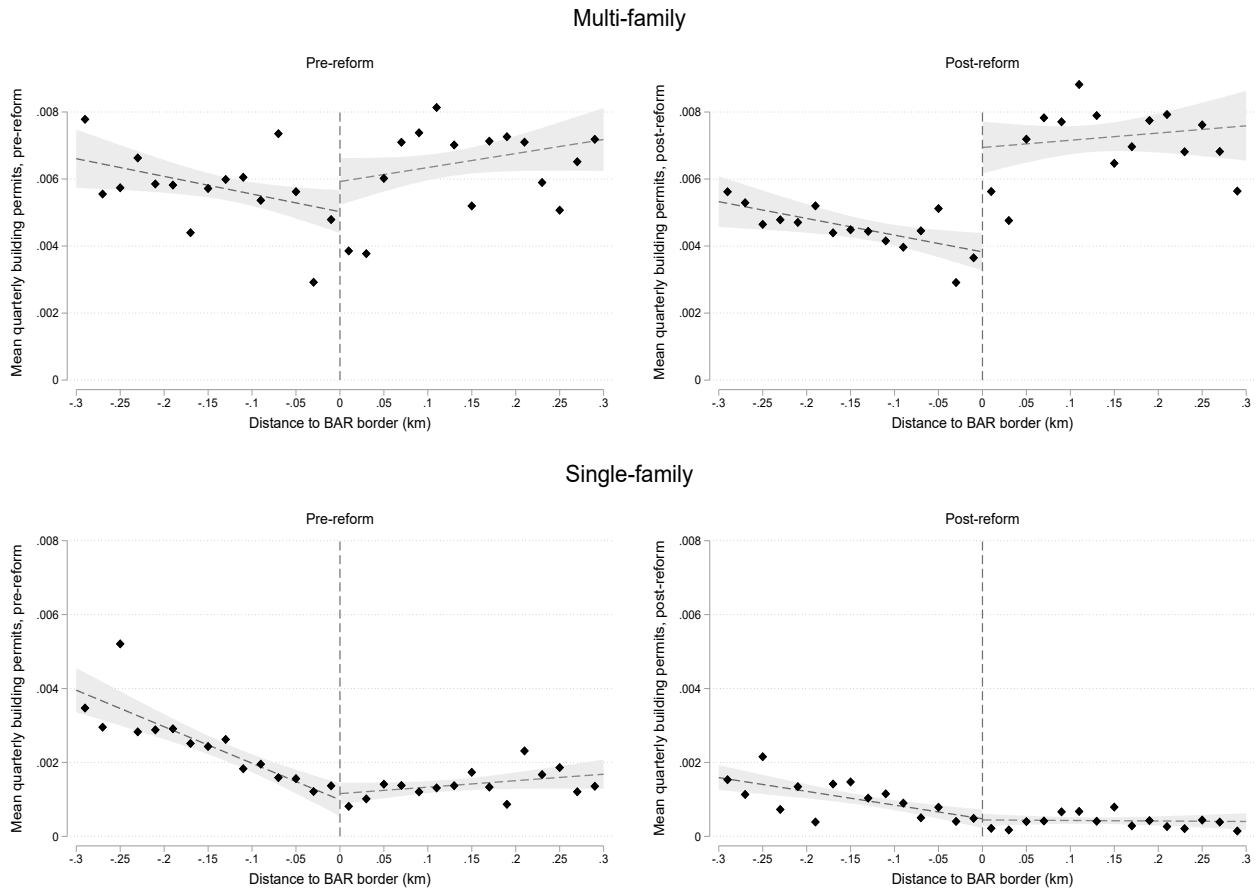


Figure 3: Multi-Family vs. Single-Family Permit Filings

This figure plots mean quarterly building permits issued for blocks within a .02 km bin of our running variable. Control blocks are to the left of the dashed vertical line; treatment blocks are to the right. For control (treatment) blocks the running variable is the distance to the nearest treatment (control) block. A treatment block is defined as a block whose max BAR increased in the 2016 reform. Control blocks are those whose max BAR declined or stayed the same in the 2016 reform. Pre-reform is 2012Q2 - 2016Q1 and post-reform is 2016Q2 - 2019Q4.

Figure 4 presents separate regression discontinuity estimates for each quarter, including both pre- and post-reform quarters. The RD estimate is generally not statistically significant prior to the reform. We see the treatment blocks experiencing greater permitting activity approximately four quarters after the reform, and the point estimates more than double two to three years after the reform. The emergence of the treatment control differences approximately one year after the reform is consistent with a causal effect of the reform, as opposed to pre-existing differences correlated with zoning changes.<sup>26</sup>

<sup>26</sup> Appendix Figure A11 presents similar estimates for commercial building permits. Point estimates are generally close to zero, and do not present a different pattern before and after the zoning reform. Also, Appendix Figure A12 presents similar figures for two models: Figure A compares zero BAR change blocks against positive BAR change

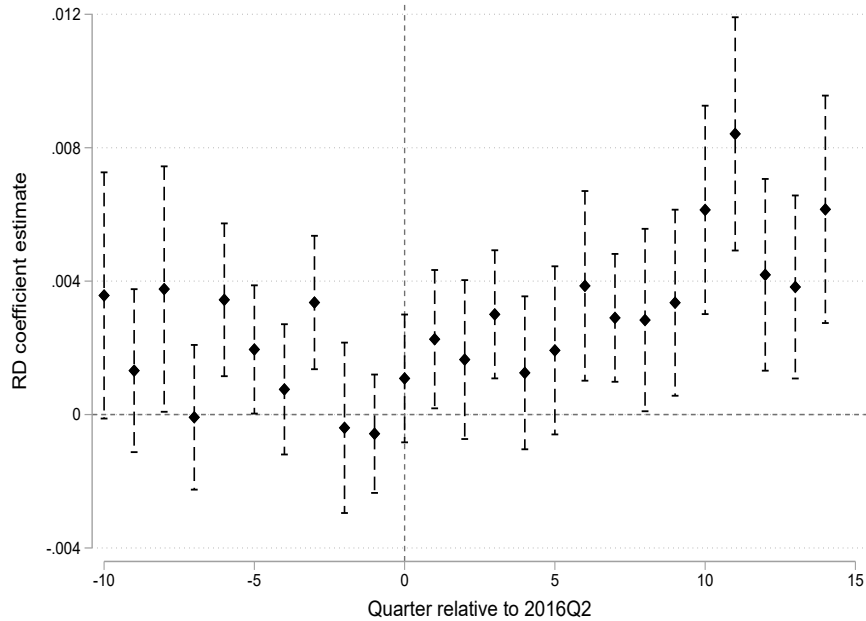


Figure 4: Dynamic RD coefficients for multifamily permit filings

This figure plots the regression-discontinuity coefficients separately estimated for quarters around the reform. The estimates come from a linear specification as in Column (2) of Table 2 with sub-prefeitura fixed effects.

Table 2 reports RD estimates for multi-family permits, in analogous form to the presentation in Table 1. Panel A reports RD estimates ranging from 0.0036 to 0.0043 (excluding the Column (1) estimate which does not control for the running variable). The inclusion of subprefeitura fixed effects in Panel B has the impact of reducing the magnitude of causal estimates to a range of 0.0022 to 0.0031. This means that an important part of the permitting effects are explained by differences in subprefeitura boundaries. Combining these estimates with the maximum BAR treatment magnitudes estimated in table 1 reveals that increasing maximum BAR by 1 leads to an increase in multi-family permits between 32% - 67%, relative to nearby control blocks. Appendix Table A1 applies the same RD strategy in a Poisson estimation, finding that increasing maximum BAR by 1 lead to an increase in multi-family permits between 40% - 70%. We also re-estimate this supply model in the next section, after incorporating prices and other local features, and find estimates

blocks, while Figure B compares zero BAR change blocks against negative change blocks. Figure A shows similar results to 4, as expected, while Figure B shows post-reform quarterly estimates that are mostly around zero and not different from pre-reform estimates. These results indicate no practical outcome differences between the groups of blocks with zero and negative BAR changes.

similar to the upper end of this range.<sup>27</sup>

Table 2: RD reduced form

Outcome	New multi-family building permits			
	(1)	(2)	(3)	(4)
<i>Panel A: No sub-prefeitura FE</i>				
Treat BAR	0.00145*** (0.00055)	0.00361*** (0.00056)	0.00427*** (0.00059)	0.00405*** (0.00064)
Specification	Base	Linear	Quadratic	Cubic
Observations	43231	43231	43231	43231
Mean of Dep. Variable	0.00419	0.00419	0.00419	0.00419
<i>Panel B: With sub-prefeitura FE</i>				
Treat BAR	0.00166*** (0.00040)	0.00216*** (0.00042)	0.00257*** (0.00050)	0.00309*** (0.00058)
Specification	Base	Linear	Quadratic	Cubic
Observations	43225	43225	43225	43225
Mean of Dep. Variable	0.00419	0.00419	0.00419	0.00419

Standard errors clustered by commuting zones in parentheses. Specification refers to the order of the polynomial for the running variable, which is distance to the RD boundary. The polynomial is always interacted with the treatment indicator. Sample is all city blocks with zoning information. Mean of dependent variable calculated for control blocks within 0.1 km of the BAR boundary. \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ .

Figure A13 presents regression discontinuity estimates on the treatment effect of allowing greater BAR ratios separately for blocks with below and above median land values. The binned averages in these plots are produced by first splitting the sample in to below and above median groups, and then using the distance to the nearest zoning border as the running variable.<sup>28</sup> Nonetheless, the figure suggests that the zoning treatment effects are largest in areas with higher pre-existing land values. The zoning reform appears to have spurred greater construction activity where developers expect greater demand and higher profits.

Figure 5 tests if the multi-family permits point estimates, pre and post reform, change according to how much of the sample we use away from the cut-off (i.e. considering larger bandwidths).

<sup>27</sup> For brevity we do not include a fuzzy regression-discontinuity model coefficients and standard errors, because our counterfactual results ultimately depend on our full supply model estimated later – where we present standard errors on the instrumented BAR variable. The coefficients in the fuzzy regression discontinuity model would be the ratio of our reduced-form coefficients in Table 2 and first-stage coefficients in Table 1.

<sup>28</sup> Note that this procedure does not necessarily include treatment and control units on each side of every border (as it is possible that treatment units on one side of a border could have above median land values but the corresponding control units had below median values).

The x-axis shows bandwidths in kilometers around the cut-off (i.e. a bandwidth of .1 includes control and treatment blocks within 100 meters of the cut-off). The y-axis shows the regression discontinuity estimate. The top panels show post reform effects with and without subprefeitura fixed effects. Estimates without subprefeitura fixed effects become larger as the bandwidth gets bigger. Post-reform estimates with fixed effects are more consistently around .002 and .003, independent of the bandwidth size. The bottom panels show similar specifications for the pre-reform period of 2012Q2 to 2016Q1. While estimates without fixed effects show statistically significant effects for bandwidths above .15, those estimates become smaller in magnitude and not statistically different from zero upon inclusion of subprefeitura fixed effects.

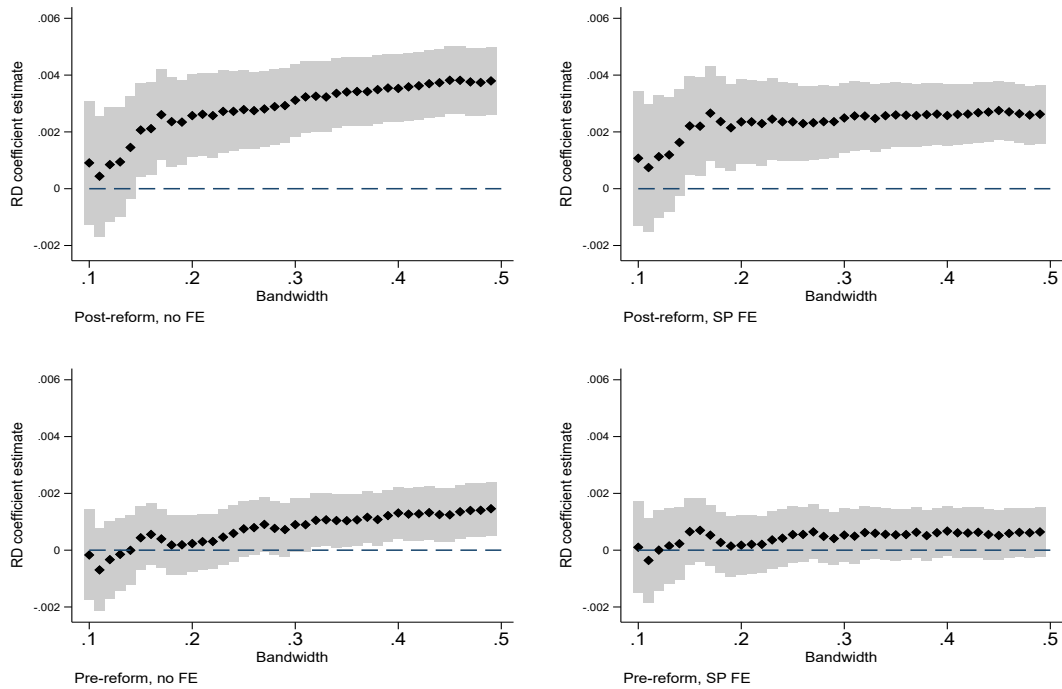


Figure 5: Multi-Family Permit Fillings by Bandwidth of Running Variable

This figure shows RD coefficient estimates with a linear specification considering larger windows around the cut-off (bandwidths). The outcome variable is quarterly filed building permits. The pre-reform period includes quarters 2012Q2-2016Q1; the post-reform period includes quarters 2016Q2-2019Q4. SP FE indicates subprefeitura fixed effects. Standard errors clustered at commuting zone level.

### 4.3 Other Zoning Parameters

Our analysis has focused on changes in BAR in nearby blocks; given that the reform included both changes in BAR and zone type designations by block, it is useful to characterize how nearby treatment and control blocks differ in zone type designations as well. Figure A14 presents RD coefficients on the probability that a block falls in to a 2004 zone type (left-panel) and 2016 zone type (right-panel). Both panels only include the top 10 most common zone types under each regime. Focusing on the left-panel, zone types with the largest coefficients are those that were more “targeted” to receive BAR increases in the 2016 reform; the results suggest that mixed use medium density, mixed use low density and environmental blocks were all positively selected to have BAR increases. The effects are relatively small for zone types that were negatively selected for BAR increases, but we note that residential low density blocks were actually less likely to receive BAR increases (at least at the cut-off). Turning to the right panel, we see that treatment blocks are also more likely to be commercial/residential A and zones of social interest, and less likely to be commercial/residential high density B zones.<sup>29</sup>

Tables A2 and A3 present our first stage and reduced form results including fixed effects for the 2004 zoning type of the block (Panels A and B) and 2016 zoning type of the block (Panels C and D). The purpose is to determine to what extent the BAR effects are picking up other permissions that, explicitly or implicitly, go along with certain zoning types, in addition to only using the BAR comparisons that occur within zoning types. Overall, controlling for the 2004 zoning type of the block leads to very small changes for the first stage and reduced form results (compared to Tables 1 and 2). Controlling for the 2016 zoning type leads to a generally smaller first stage effect on BAR (.982 with the subprefeitura fixed effects and the cubic polynomial in Panel D, Table A2 versus 1.355 in Panel B, Column 4, Table 1). Dividing the reduced form effects by this smaller first stage, we see that controlling for the 2016 zone fixed effects leads to a treatment effect size of .00144 extra permits per quarter per BAR point, versus the .0023 estimate without the 2016 zone controls.<sup>30</sup> This suggests approximately 1/3 of the BAR effect could be associated with other zoning permissions implicitly associated with zone types, although it is also possible that these differences are driven by different local average treatment effects induced by the inclusion of the 2016 zone type controls.

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<sup>29</sup> The “A” and “B” designations are used to indicate qualitatively more dense areas in the government’s description of zone types.

<sup>30</sup> .00144 = .00142/.982 from Tables A2 and Table A3 versus .0023 = .00309/1.355 from Table 2 and Table 1.

## 4.4 Approvals and Construction

So far we have analyzed the reaction of developers to zoning reform based on the fastest outcome we can observe, i.e., the filing of zoning permits. It turns out that more than 75 percent of permits are approved within 3 to 4 years of their filings, a number that only slightly increased after the 2016 reform. In Table A4 we estimate a similar RD for approved permits, and find estimates in the range of 47-88 percent increase in approved permits for each 1 unit of max BAR increase.

Given the lags involved in filling and approval of permits, and the additional years necessary to observe any type of multifamily projects - which generally have extra construction delays - using constructed buildings as an outcome would give a biased picture of the zoning reform's full effects, at least in the short term. However, we can use data prior to the reform to estimate the conversion rate of permits to constructed buildings, in order to help quantify how our results on permits are likely to convert to constructed buildings. Figure A15 estimates a block-level event-study model on the impact of a permit being issued on the density of new construction, measured as new constructed area divided by total land area in the IPTU data, in the period prior to the reform (2004-2016). The figure suggests that a new permit issued in a block is correlated with increases in density up to 15 years after the issuance. These calculations are only useful to the extent that past relationships between permits and finished construction hold, which may or may not be a good assumption, especially given the recent Covid-19 pandemic. Nonetheless, we will use this relationship to translate permit effects in to construction effects when we estimate our structural model to evaluate welfare.

A second consequence of the limited time that has passed since the 2016 reform is that we do not yet have prices for the upcoming construction projects and demographic information that reveals the types of households that will move in to newly constructed housing in response to the reform, primarily because most of the new housing has not been built yet. However, we will readily address this challenge when estimating counterfactual simulations based on the equilibrium model developed in the next section.

## 4.5 Spillover Effects

We identify the treatment effect of relaxing zoning rules by comparing areas that received a relaxation of BAR requirements to nearby areas that did not receive a relaxation. In this section we analyze the extent to which increases in allowable BAR levels might affect nearby blocks (i.e.



spillover effects). On the one hand, developers may act independently, and spillover effects might be small during the post reform period when developers are simply filing for permits. But there are at least three reasons to estimate spillover effects in our context. First, projects could move from nearby control blocks to treatment blocks, leading us to over-estimate the effect of the BAR reform. Second, buildings in nearby control blocks could *increase* if the greater expected density in the nearby treatment blocks make nearby control blocks more attractive areas to develop as well. Finally, part of the treatment effect in treatment blocks could reflect agglomeration benefits of other nearby treatment blocks - although these benefits would likely appear with large lags.

We follow the Diamond and McQuade (2019) methodology to assess the importance of spillovers in the context of a highly localized zoning reform. The basic strategy is to treat both treatment and control blocks near a zoning boundary as “treated,” in the sense that they are nearby to an area where a major zoning change occurred. We compare outcomes for these blocks near boundaries to a “pure control” set of blocks that are farther (i.e., greater than half kilometer) away from the boundary, before and after the reform. To operationalise this spatial difference-in-differences strategy we estimate the following regression model:

$$y_{it} = \sum_{j=1}^{12} I(t > 2016Q2) * I(dc_{j*-.04} = 1) + \sum_{j=1}^{13} I(t > 2016Q2) * I(dt_{j*.04} = 1) + b_i + q_t + \epsilon_{ij} \quad (2)$$

where  $y_{it}$  is the number of permits issued in block  $i$  in a quarter  $t$ ,  $I(t > 2016Q2)$  is an indicator for post reform,  $I(dt_{j*.04} = 1)$  is an indicator for a treatment block that is  $j * .04$  km away from the nearest control block, and  $I(dc_{j*-.04} = 1)$  is an indicator for a control block that is  $j * .04$  km away from the nearest treatment block. The equation also includes block and quarter fixed effects. The omitted category is control blocks more than .48 km away from the boundary, and all treatment blocks with distance greater than .5 km are bunched in the 0.52 bin. For visual clarity the graph only shows bins from -.3 to .3 km away from the cut-off.

Figure A16 presents the estimated coefficients. On average permits are higher in all treatment blocks (0.00085) relative to all control blocks (0.0001). The difference between treatment and control groups is slightly larger within .12 km to the boundary (0.001 for treatment blocks and -0.00002 for control blocks). But they are not statistically different from each other, in part because the distance bins are quite small. Moreover, we do not observe control blocks near treatment blocks appearing to have particularly low permit averages. Relative to control blocks 0.5 km away from

treatment blocks, the distance of a given treatment (control) block away from a nearby control (treatment) does not appear to be strongly associated with permitting activity.<sup>31</sup>

## 5 Welfare Evaluation

### 5.1 Model of Residential Demand

#### 5.1.1 Choice model

Our model of residential housing demand follows a standard discrete choice framework (Berry, Levinsohn and Pakes, 1995; Bayer, Ferreira and McMillan, 2007). Household  $i$  chooses between  $j = 1, \dots, J$  alternatives, where the alternatives are one of 329 commuting zones within the city of São Paulo based on our residential commuting zone survey data. The outside option is living outside the city - in the suburbs - taken by roughly 40% of the individuals in the residential commuting data. Individual utility from choosing to live in zone  $j$  will be:

$$u_{ij} = \alpha_i^d p_j + \beta_i^d X_j^d + \gamma_i \tau_{ij} + \zeta_j + \epsilon_{ij} \quad (3)$$

where  $p_j$  is the price of housing in zone  $j$ , measured as the average Properati listing price per square meter in commuting zone  $j$ .  $X_j^d$  is a  $K$ -dimensional vector of housing amenities and demographics of location  $j$ . This includes an index of residential commuter market access (RCMA) that measures the extent to which  $j$  is located near high-paying jobs, using travel times from a zone commuting matrix.<sup>32</sup>  $X_j^d$  also includes the average age, in years, of housing units, average number of units per building, the overall zone-level constructed area density – defined as the sum of all constructed area divided by the zone geographic area – the share of households with a paved road, the average zone income, and the share of zone adults with a college degree. The term  $\tau_{ij}$  measures commuting costs as the predicted travel time in minutes between the zone in which  $i$

<sup>31</sup> Our finding of non-existent spillover effects in building activity is consistent with Turner, Haughwout and Van Der Klaauw (2014) finding of small effects of land-use regulations on nearby property prices.

<sup>32</sup> We define the RCMA for zone  $j$  as:

$$RCMA_j = \sum_{i \in I_j} \frac{w_i}{d_{ij}}$$

where  $I_j$  is the set of zones that have at least one worker living in  $j$  and  $w_i$  is the average wage in  $i$ . Iceberg commute costs are modeled as  $d_{ij} = \exp(\kappa \tau_{ij})$ , where  $\tau_{ij}$  is the average reported travel time in minutes between  $i$  and  $j$ . We set  $\kappa = 0.01$ , following micro-estimates from Ahlfeldt et al. (2015) and Tsivanidis (2019).

works, taken as given, and zone  $j$ .<sup>33</sup> Finally,  $\xi_j$  is an unobserved location-specific “structural” utility shock, which may possibly be correlated with price, although we assume the variables in  $X_j^d$  are exogenous. The shocks  $\epsilon_{ij}$  are distributed i.i.d. type I extreme value. The utility of the outside option is normalized to zero,  $u_{i0} = 0$ .

Let  $Z_i$  be a  $D$ -dimensional vector of household characteristics, including household size, age of the household head, a rental indicator, household income, and a college indicator for the household head. The heterogeneous demand parameters  $\alpha_i^d$  and  $\beta_i^d$  take the form:

$$\begin{pmatrix} \alpha_i^d \\ \beta_i^d \\ \gamma_i \end{pmatrix} = \begin{pmatrix} \alpha^d \\ \beta^d \\ \gamma \end{pmatrix} + \Pi Z_i \quad (4)$$

where  $Z_i$  is the  $D \times 1$  vector of demographic variables  $z_{i,1}, \dots, z_{i,D}$  and  $\Pi$  is a  $(K + 2) \times D$  matrix of coefficients containing: *i*)  $\pi_{\alpha,1} \dots \pi_{\alpha,D}$ , the interactions of price and each of the  $D$  demographics in  $Z_i$  *ii*)  $\pi_{\gamma,1} \dots \pi_{\gamma,D}$ , the interactions of travel time and each of the  $D$  demographics in  $Z_i$ , and *iii*)  $\pi_{\beta^k,1} \dots \pi_{\beta^k,D}$  for  $1, \dots, K$ , the interactions of all of the demographic variables with all of the  $K$  commuting zone characteristics.

First, re-write utility separating out the parameters that only vary by neighborhood and the parameters that contain heterogeneity in preferences as follows:

$$u_{ij} = \delta_j + \mu_{ij} + \epsilon_{ij} \quad (5)$$

where  $\delta_j = \alpha^d p_j + \beta^d X_j^d + \xi_j$  and  $\mu_{ij} = (p_j, X_j^d, \tau_{ij}) \Pi Z_i + \gamma \tau_{ij}$ .

Since we observe individual demographics, we can calculate the conditional choice probability that each individual  $i$  chooses option  $j$ . Define  $y_i$  as the choice indicator and  $\theta^d$  as the vector of demand parameters. We have:

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<sup>33</sup> We model the travel time between living zone  $j$  and working zone  $k$  with a regression of the form

$$\tau_{jk} = \mu + \eta \log(pop_j) + f(d_{jk}, \phi) + v_{jk}$$

where  $\tau$  is the average reported travel time in minutes between the zones  $j$  and  $k$ ,  $f$  is a flexible polynomial function of distance  $d$  and regression parameters  $\phi$ , and  $pop_j$  is the number of households in zone  $j$ . We estimate this equation on 30,934 route-level observations for which we observe any trip, using a cubic polynomial in distance. We then predict  $\tau$  for all possible combinations of living zones in our model (329) and working zones reported in the data (517). There are more working zones than living zones because *i*) working zones include suburban zones, and *ii*) some survey respondents work in city zones where no-one in the survey lives and are thus dropped from the choice model. This predicted value then enters the utility equation in the estimation based on individual  $i$ 's working zone, taken as fixed.

$$Pr(y_i = j | Z_i, X, p, \zeta, \theta^d) = \frac{\exp(\delta_j + (p_j, X_j^d, \tau_{ij})\Pi Z_i + \gamma\tau_{ij})}{1 + \sum_{k \in J} \exp(\delta_k + (p_k, X_k^d, \tau_{ik})\Pi Z_i + \gamma\tau_{ik})} \quad (6)$$

Note that the denominator of the conditional choice probability is taken over all locations in the city, implicitly assuming that all consumers choose from all possible neighborhoods in the city as well as the outside option.<sup>34</sup>

For estimation, we follow the standard two-step approach. In the first step, we use maximum likelihood to estimate heterogeneity parameters  $\hat{\Pi}$ ,  $\gamma$ , and the fixed effects  $\hat{\delta}_j$ . The likelihood function is:

$$L(\Pi, \delta | X, p, Z, \zeta) = \prod_i \prod_{j \in J_i} Pr(y_i = j | Z_i, X_j, p_j, \tau_{ij}, \zeta, \Pi, \delta) \quad (7)$$

In the second step, given the estimates of the location fixed effects, we can recover the level coefficients by estimating  $\hat{\delta}_j = \alpha^d p_j + \beta^d X_j^d + \zeta_j$  using an instrumental variables regression. Our demand-side price instruments follow Bayer, Ferreira and McMillan (2007), taking the average housing and spatial characteristics within a geographic “donut” around the neighborhood centroid. We select our IVs from a set of housing characteristics that includes the paved road share, RCMA, housing stock age, average units per building, and density and spatial characteristics that include the favela share of zone area, flood-zone share of zone area, average slope, and metro station presence. These IVs follow the logic of between-neighborhood competition: if location  $j$  is surrounded by higher quality zones, then  $j$  must lower its price to attract residents, implying a strong first stage. However, the nearest neighborhoods to  $j$  may create direct quality spillovers, violating the exclusion restriction. As such they are excluded from the calculation, creating a “donut” around  $j$  of neighborhoods that only influence the choice problem through their indirect impact on price in  $j$ .<sup>35</sup>

We estimate the model on a sample of 24,800 households with at least one employed member using the 2017-18 City of Sao Paulo Origin-Destination commuting survey, which contains information on housing and employment location choice, as well as household demographics. To measure commuting zone-level amenities we use data on the universe of residential housing

<sup>34</sup> In another version of the model, we restrict individual-specific choice sets to the outside option and all of the locations in the consideration set  $J_i$ . To construct this consideration set at the individual-level, we first assume that the location of individual employment is exogenous. We then identify, for each individual, all of the locations  $j$  that are connected to  $i$ 's location of work in the commuting matrix. This then becomes the consideration set  $J_i$ . In other words, we assume that, having decided where to work, individuals then make their housing location choice among the options allowed by their place of work. The results are similar.

<sup>35</sup> We include neighborhoods from 5-20 miles from  $j$  in the average characteristics of competitors.

units in São Paulo obtained from the IPTU tax records, and prices are measured according to the Properati listing price data. We collapse these variables – measured as of 2017 – into averages for each of the 329 commuting zones in our data. To improve computational performance in the estimation routine, all variables are standardized by subtracting the mean value and dividing by the standard deviation across commuting zones. We estimate standard errors on all parameters by double-bootstrapping both the first and second stage of the estimation with 500 replications.<sup>36</sup>

### 5.1.2 Demand estimation results

Table 3 presents our estimated demand parameters. The columns indicate the nine commuting zone characteristics (price, travel time, RCMA, age, units, density, paved, income and education), for which we allow demand to vary by demographics. The household size, age, renter, income, and college degree rows correspond to characteristics of the household. Bootstrapped standard errors are in parentheses. The base coefficient indicates the utility change from a one standard deviation increase in the corresponding column variable at the mean level of the demographic variables in the rows (because the household demographic characteristic variables are standardized to be centered around zero as well).<sup>37</sup> The base coefficients are taken from column (9) in Table A7, which compares several different specifications of the demand-side IVs.<sup>38</sup>

Focusing on these base coefficients, we find a negative elasticity of demand with respect to price and travel times. We find a positive elasticity with respect to RCMA, which implies that conditional on price and travel time to a given workplace, households prefer to live near areas with many high paying jobs. This could be driven by households with multiple working members (our travel time variable is only defined for the head of household), or due to other benefits of neighborhoods with high paying jobs. Regarding neighborhood characteristics, we find consumers dislike old housing stock and also dislike greater density within a given building (units). However,

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<sup>36</sup> Bootstrap results for the price coefficients can be found in Figure A17. Distributions of estimates from the bootstrap procedure for other parameters look similar.

<sup>37</sup> For context in interpreting magnitudes, summary statistics of the main demand variables are in Table A6.

<sup>38</sup> Table A7 shows results from different instrumental variable specifications. Column (1) presents the OLS estimate, column (2) includes only the average  $X$  characteristics of competitors, column (3) includes only spatial characteristics, and column (4) includes both sets of IVs. Columns (5)-(9) contain different subsets of the most powerful IVs, as indicated in the Table footer. The price coefficient is smallest in the OLS regression, at 0.79, and increases in magnitude to roughly 1.5-3.9 for the IV the different specifications. This downward bias in the OLS estimate of the price elasticity is consistent with the standard simultaneous equations bias in supply and demand systems. The IV specifications vary substantially in strength, with the strongest being the parsimonious single-IV specifications using RCMA and density in columns (5) and (6). Still, the price coefficients remain relatively stable across IV models. Since using multiple IVs increases the amount of information used for identification – although at the cost of first-stage power – our preferred specification in (9) uses the subset of four jointly strongest instruments. These are the favela share, slope, RCMA, and age.

Table 3: Estimated demand parameters

Demographic	Price (1)	Travel time (2)	RCMA (3)	Age (4)	Units (5)	Density (6)	Paved (7)	Income (8)	Education (9)
Household size	-0.087 (0.027)	0.127 (0.012)	0.026 (0.023)	-0.064 (0.018)	-0.071 (0.040)	-0.050 (0.022)	0.002 (0.013)	-0.042 (0.031)	-0.041 (0.038)
Age	-0.064 (0.026)	-0.153 (0.011)	-0.044 (0.024)	0.056 (0.019)	-0.151 (0.029)	0.005 (0.021)	0.035 (0.017)	0.060 (0.033)	0.123 (0.039)
Renter	-0.060 (0.026)	-0.122 (0.011)	0.004 (0.022)	0.198 (0.019)	-0.002 (0.027)	0.034 (0.018)	0.037 (0.017)	-0.003 (0.032)	-0.015 (0.036)
Income	-0.077 (0.034)	-0.053 (0.023)	0.039 (0.033)	0.110 (0.036)	-0.145 (0.060)	0.081 (0.024)	0.115 (0.046)	0.467 (0.041)	-0.005 (0.058)
College degree	-0.185 (0.036)	-0.047 (0.014)	-0.017 (0.031)	-0.011 (0.026)	-0.163 (0.050)	0.068 (0.025)	0.058 (0.030)	-0.314 (0.037)	0.880 (0.046)
Base coefficients	-1.975 (0.454)	-2.413 (0.021)	0.749 (0.225)	-0.980 (0.124)	-0.647 (0.432)	0.765 (0.159)	0.090 (0.104)	-0.420 (0.250)	0.572 (0.294)

Results are from the estimation of demand-side preference parameters using two-step maximum likelihood and 2SLS. Top row gives variable names, while leftmost column gives the demographic variables. Estimation sample is 329 commuting zones and 24,800 individual households. All location characteristics including price are standardized relative to the zone-level sample mean and standard deviation. Travel time is normalized across all individual-zone combinations. Base coefficients are from column (9) of Table A7, which instruments for housing prices using the average spatial and housing characteristics of zones 5-20 miles from a zone centroid. These characteristics are favela share of zone area, slope, RCMA, and housing stock age. Bootstrapped standard errors with 500 replications in parentheses.

they like denser neighborhoods (density) that have better infrastructure (paved). The base coefficient on income is negative, suggesting there is an average preference for living around lower income people - the majority of residents in Sao Paulo are lower income.<sup>39</sup> The base coefficient on education is positive, suggesting a preference for living near higher education people. All demographics and neighborhood characteristics are standardized, so base coefficients are interpreted as the preference for a one standard deviation increase in the characteristic for the demographically “average” household.

The other rows in Table 3 present the coefficient estimate on the interaction term between the neighborhood characteristic in the column and the household characteristic in the row. For example, the negative coefficient -.185 on College degree in the first column indicates that the price elasticity of college graduates is more negative than that of the average household. The most important interactions between neighborhood characteristics and demographics are as follows. Higher income and college educated households appear to be more sensitive to price changes

<sup>39</sup> Even though we assume that education and income are exogenous, these variables are demographic characteristics that could be correlated with the average unobserved quality of the neighborhood, potentially biasing the coefficients on other characteristics. Instead of instrumenting for demographics, in Appendix Figure A18 we plot price estimates from the second-stage 2SLS estimation, constraining the income and education taste parameters at various multiples of their estimated values, from 0 to 3 (as seen on the x-axis). We find this sensitivity test leaves our main price estimate essentially unchanged.

in this sample, and have somewhat greater taste for local density. As far as taste for number of units in the building, older, richer, and more educated households have greater dis-utility from living in buildings with greater units. Column (8) shows that higher income households have a preference for living near other high income households. Column (9) suggests that high education households also prefer to live near higher education households. These patterns suggest strong income and education-based geographical sorting.

## 5.2 Model of Residential Supply

We model the construction of new residential housing as an exponential function of building density restrictions, housing prices, and location characteristics. In particular, we estimate the following supply equation for location  $j$ :

$$E[s_j | p_j, X_j^s, M_j] = \exp(\alpha^s p_j + \beta^s X_j^s + \psi M_j) \quad (8)$$

where  $s_j$  is the total number of building permits in location  $j$  and  $p_j$  is the average residential listing price in  $j$ .  $X_j^s$  is a vector of other housing and regulatory characteristics of location  $j$  that affect developer profits. This includes construction density in  $j$ , the average building age, the average number of units per building, and the average value of the pre-2016 BAR zoning parameters, and the 2016 non-BAR zoning parameters (maximum shadow ratio, minimum and basic BAR, maximum height, minimum and maximum front setback, and maximum area), across all blocks in  $j$ .<sup>40</sup>  $M_j$  is the maximum allowable BAR in neighborhood  $j$ . We model the conditional expectation of permits as an exponential function (Poisson regression) because of the strictly positive, discrete count nature of this outcome variable.

In order to exploit exogenous variation from the regression discontinuity of the 2016 reform to identify the supply-side parameters, we model the supply location choice at the subprefeitura-quantile-level. First, we place all of the city blocks into 40 quantiles of our regression discontinuity running variable (i.e. distance to the 2016 zoning change boundary). We then collapse the variables  $X^s, p, M$  in to a subprefeitura-by-quantile level dataset. This formulation allows us to preserve the reduced-form relationship between (binned) distance, BAR, and permitting activity identified in Section 4; our estimation procedure will focus on comparisons between permit outcomes for the quantiles just above and below the BAR increase cut-off within subprefeituras.

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<sup>40</sup> We weight all blocks equally. Summary statistics for our supply variables are in Table A8.

The dependent variable is the number of new building permits in location  $j$  that are filed in the post-reform period (2016-2019).

### 5.2.1 Instrumental variables

The Poisson regression in equation 8 contains two endogenous variables,  $p_j$  and  $M_j$ , while other physical location characteristics are assumed exogenous. In order to overcome this endogeneity problem, we estimate the supply model with multiple instruments using the GMM estimator of Mullahy (1997) with additive errors to form moment conditions.<sup>41</sup> The instrument set is  $W_j^s = [T_j, B_j, X_j^s]$ . The first instrument  $T_j$  is used for maximum BAR, and it is an indicator for whether the subprefeitura-quantile  $j$  is treated by the 2016 reform. To leverage the fuzzy regression discontinuity design for identification of  $\psi$ , we also include  $D_j$  and  $D_j \times T_j$  as control variables in the vector  $X_j^s$ . Validity of the zoning instruments was discussed in detail in the previous sections.

The second instrument,  $B_j$ , is an instrument for market price. A major challenge in the housing supply literature is the identification of supply elasticities with regards to price. Inspired by Baum-Snow and Han (2021), we instrument for price using a Bartik-style demand shock. The idea is to exploit plausibly exogenous variation in exposure to national labor demand growth for neighborhoods based on the historical presence of sectors that experienced substantial national growth, and then use this demand growth as an instrument for price in our Poisson supply equation.<sup>42</sup> Formally, let  $B_l$  be our Bartik instrument for commuting zone  $l$ 's employment growth over the period 2007 through 2017.  $B_l$  is defined as:

$$B_l = \sum_k z_{lk} g_k^{-SaoPaulo}.$$

where  $k$  indexes one of our 59 economic sectors and  $l$  indexes commuting zone.  $g_k^{-SaoPaulo}$  is the national growth rate in employment, excluding the Sao Paulo municipality, in sector  $k$  from 2007 to 2017.  $z_{lk}$  is the commuting zone level sector  $k$  share of employment in 2007 (the "initial share");  $z_{lk}$  is calculated as  $\frac{L_{lk}}{\sum_k L_{lk}}$ , where  $L_{lk}$  is the total number of formal sector employees in the RAIS data in commuting zone  $l$  in sector  $k$ , divided by the sum of employees in that commuting zone

<sup>41</sup> We consider the robustness of the estimates to a simple log-linear specification - which drops locations with zero permits - and find qualitatively similar results. We prefer the Poisson method to a simple log-transformation of the outcome, as it preserves all observations in the data. Results are also similar using multiplicative errors, see appendix Table A9.

<sup>42</sup> We use 59 economic sectors' growth rates calculated from the RAIS data. Appendix Figure A19 shows national employment growth rates from 2007 through 2017 for those economic sectors.



excluding the sector. Appendix figure A20 shows how these initial shares are distributed across our 329 commuting zones. Retail tends to have the largest share of employment in 2007. The instrument is a prediction of 2017 sector shares using the initial shares from the commuting zone “grossed up” by the national level growth in that sector. Lastly, we aggregate the commuting-zone-level Bartik shock,  $B_i$ , into a subprefeitura-by-quantile shock,  $B_j$ , using the weights provided in Appendix A.

Our identification assumption is that our Bartik instrument only affects new permit issuances in 2017 through its effect on prices in 2017. Our set up is different from the standard setup discussed in Goldsmith-Pinkham, Sorkin and Swift (2020), where the outcome, endogenous regressor, and instrument are measured in changes. In our setup, the outcome and endogenous regressor are measured in levels (due to data availability), but our instrument is measured in changes. The threat to identification is that the initial shares in 2007 could be related to 2017 permit issuance levels through some non-price mechanism conditional on our control variables. While we cannot directly test this assumption, we note that our specification controls for a very large set of building restrictions and neighborhood characteristics, which hopefully reduces the chance that employment shares have a non-price relationship with building activity.

Appendix Figure A21 shows a scatter plot of the first stage relationship between market prices in 2017 and our Bartik instrument. Each point is a commuting zone. There is a positive correlation; commuting zones that had higher initial shares in sectors that ended up growing faster nationally also do have higher price levels in 2017. The right panel of the figure shows a binned scatter plot version, indicating a strong first stage.<sup>43</sup>

### 5.2.2 Supply estimation results

We estimate the supply model using data on 5,375 new residential building permits filed with the São Paulo city government between 2016-2019. The right-hand-side variables are taken from either IPTU or the block-level zoning maps; all of these variables are averaged across blocks within the subprefeitura-quantile. In total, we obtain 1182 subprefeitura by quantile observations, of which 900 have any new residential construction permitting activity over this period.

Table 4 presents the estimated supply coefficients. The instrument specification for each model

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<sup>43</sup> Appendix Figure A22 shows the corresponding figures for number of new permits issued in the post-reform period against the Bartik IV (the “reduced form” relationship). Goldsmith-Pinkham, Sorkin and Swift (2020) recommend analyzing how the overall instrumented coefficient compares to the coefficients estimated based on each possible sector as an instrument. Figure A23 shows this plot for our Poisson model. We see that most sectors are close to the overall estimate, suggesting that the price elasticity coefficient is not determined by one particular outlying division.

Table 4: Supply estimates: Poisson IV regressions

Outcome	All new buildings			Single	Multi
	(1)	(2)	(3)	(4)	(5)
Max BAR	0.386*** (0.099)	0.789*** (0.166)	0.747*** (0.163)	-0.048 (0.335)	0.870*** (0.188)
Price	0.140*** (0.034)	0.149*** (0.035)	0.415*** (0.101)	0.425* (0.214)	0.387** (0.139)
Density	0.222 (0.118)	0.116 (0.125)	-0.292 (0.195)	-0.176 (0.435)	-0.251 (0.247)
Age	0.017* (0.008)	0.016* (0.008)	-0.019 (0.015)	-0.045 (0.035)	-0.023 (0.020)
Units per building	-0.005 (0.004)	-0.006 (0.005)	-0.013 (0.007)	-0.025 (0.014)	-0.023* (0.010)
Historical preservation	-0.747* (0.347)	-0.699 (0.358)	-0.453 (0.387)	-0.009 (0.788)	-0.831 (0.458)
Q	1.764e-29	1.658e-29	2.684e-29	2.712e-29	1.007e-28
Observations	1182	1182	1182	1182	1182
IVs	None	RD	RD, Bartik	RD, Bartik	RD, Bartik

Robust standard errors in parentheses. Results are from the estimation of fuzzy regression discontinuity (RD) exponential (Poisson) model, estimated with GMM, on the sample of subprefeitura-quantiles. The RD treatment indicator instruments for Max BAR, while the Bartik labor demand shock instruments for price. All models use an additive error specification to form moment conditions. All specifications include controls for the running variable interacted with the treatment, and the following zoning parameters: maximum shadow ratio, minimum and basic BAR of 2004 and 2016, max BAR of 2004, maximum height, min and max. front setback and maximum area of 2016, (zoning variables averaged within subprefeitura-quantile).  $Q$ -statistic gives the value of the GMM criterion function at the optimal parameters. The outcome variable is the number of total new building, single-family, or multi-family permit applications between 2016-2019, as indicated. \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$ .

is given in the table footer. For reference, column (1) does not instrument for either endogenous variable, while column (2) estimates the model using only the regression discontinuity instrument for  $M_j$ . Column (3), our preferred specification, instruments for both  $M_j$  and  $p_j$  with the RD and Bartik IVs, respectively. The estimates in (3) imply that a one-unit increase in maximum allowable BAR at the mean leads to approximately 5.05 additional new building permits for the average unit.<sup>44</sup> This estimate is in line with the RD estimates from Table 2. The price coefficient in column (3) implies that a 1,000 reais increase in price (18.7% of the mean) is associated with 2.34 new permits on average.<sup>45</sup> Note that column (1) substantially underestimates both coefficients by ignoring endogeneity. Instrumenting for BAR with the fuzzy RD nearly doubles the estimated coefficient. In addition, the price elasticity estimate rises from 0.149 to 0.415 from columns (2) to

<sup>44</sup>  $5.05 = 4.55 * (\exp(0.747) - 1)$ , where 4.55 is the average of the outcome variable.

<sup>45</sup>  $2.34 = 4.55 * (\exp(0.415) - 1)$ .

(3). This suggests a downward simultaneous equations bias in estimating the supply elasticity.

In columns (4)-(5), we show that BAR effects are small and statistically insignificant for single family permits, but large and significant for multifamily permits. This is consistent with the reduced form results in Section 4. Both housing types, however, exhibit similar degrees of price responsiveness.<sup>46</sup>

### 5.3 Equilibrium

With the estimated supply side parameters  $\hat{\theta}^s$  and demand side parameters  $\hat{\theta}^d$  in hand, we can solve for equilibrium in the residential housing market. Our counterfactual exercises will consist of imposing an exogenous zoning map  $M$  (the policy experiment), obtaining  $p(M)$ , a  $J$ -vector of counterfactual prices  $p = [p_1, \dots, p_J]$  in each location  $j$  such that supply and demand are equated under  $M$ . We conduct the equilibrium analysis at the commuting zone level. We analyze the following map  $M$  scenarios: 1) A baseline equilibrium that takes observed zone-level market shares in 2016 (just prior to the 2016 reform), and estimated demand parameters and calculates the price vector necessary to equate supply and demand.<sup>47</sup> 2) A counterfactual where we simulate the model for ten years given the 2004 zoning map. 3) A counterfactual where we simulate the model for ten years given the 2016 reform zoning map. 4) A “double BAR” counterfactual where we keep BAR at 2004 levels for blocks that in reality received lower BARs in the 2016 reform, and double the ultimate 2016 BAR for blocks that received an increase in BAR in the 2016 reform. In simulations (2)-(4) we run the supply model for 10 years to estimate impacts of new permits on new construction, prices, residential sorting, and welfare.

To calculate the equilibrium prices for a given zoning map, we first take the estimated supply parameters  $\hat{\theta}^s$  and use them to calculate  $S_j(p; M, X^s, \hat{\theta}^s)$ , the market share of total housing supply in location  $j$  for a given price vector, supply characteristics  $X^s$ , and zoning map  $M$ . Then, using the demand parameters  $\hat{\theta}^d$ , we calculate  $D_j(p; X^d, \hat{\theta}^d)$ , the predicted market share of location  $j$  given prices and the demand structure. The equilibrium condition is that supply equal demand in each

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<sup>46</sup> In the Appendix, we consider several robustness tests for the supply model. Our additive error structure, following a standard nonlinear regression setup, implies as an identifying assumption that the instruments  $W_j^s$  are exogenous to the exponential function of the endogenous variables. Table A9 allows the error term to enter multiplicatively instead of additively in forming the GMM moment conditions. The results are similar. Table A10 considers approvals, rather than all permit filings, and finds nearly identical magnitudes. If anything, using filings is a conservative approach. Finally, Table A11 estimates the model with a linear 2SLS specification, allowing us to assess instrument strength with the first-stage Kleibergen-Paap  $F$ -statistic. The sign and significance of the coefficients is unchanged, and the instruments are highly correlated with endogenous variables, allaying concerns about weak instruments.

<sup>47</sup> As a validation exercise we will compare these model computed prices with the observed 2016 prices.

commuting zone  $J$ :

$$S_j(p; M, X^s, \hat{\theta}^s) = D_j(p; X^d, \hat{\theta}^d) \quad \forall j \in [1, \dots, J] \quad (9)$$

We obtain a system of  $J$ -equations in  $J$  unknowns and search for the price vector  $p$  that solves the equilibrium system of nonlinear equations. This equilibrium condition implicitly assumes that households do not anticipate demographic changes that will occur as households respond to prices; they simply respond to price changes and then subsequently observe demographic changes, which affect their ex-post welfare. Given the 2016 reform ultimately represents a small change in the housing stock, and therefore small demographic changes, it is unlikely allowing households to forecast demographic changes would greatly change our results.<sup>48</sup>

To calculate the commuting zone-level demand shares  $D_j(p; X^d, \hat{\theta}^d)$ , we must aggregate the individual conditional choice probabilities to the commuting zone-level by integrating over the empirical distribution of demographics  $F_Z$ :

$$D_j(p, X^d, \hat{\theta}^d) = \int Pr(y_{it} = j | Z_i, X^d, p, \hat{\theta}^d) dF_Z \quad (10)$$

Calculating the zone-level supply shares  $S_j(p; M, X^s, \hat{\theta}^s)$  is more complicated, since it requires solving two aggregation problems. First, our choice equation refers to new permits rather than the stock of buildings, so we must translate new building permits into market shares of total housing units. Second, our supply side equations are subprefeitura-quantile level and must be aggregated to the commuting zone level. For details on this aggregation procedure, see Appendix A.

Our equilibrium condition equates the *market shares* of each location as predicted by our estimated demand and supply models. Implicitly, this assumes that the population of the MSA will grow to meet the new housing stock built after a given shock to BAR. If this were not the case, then there would have to be real vacancies somewhere in the MSA after a positive housing supply shock in the model, since the total number of housing units would exceed the number of possible residents. In this sense, the equilibrium in shares is an “open city” model where new migrants are assumed to enter and fill in new vacancies. We believe that this is a more reasonable assumption for the city of Sao Paulo, which is the wealthiest city in Brazil and plays a somewhat similar role

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<sup>48</sup> Disallowing this demographic forecasting behavior also removes the problem of equilibrium selection. Bayer, McMillan and Reuben (2004) and Bayer and Timmins (2005) provide detailed analyses on the issue of multiple equilibria in residential sorting models, and in Appendix B we discuss a modified equilibrium calculation procedure in which we allow multiple rounds of demographic change.

as that of New York City in the United States.

One potential criticism is that such “equilibrium in shares” assumption may be restrictive and lead us to underestimate price effects. An alternative assumption on the other extreme is that the São Paulo MSA is a closed economy, such that any counterfactual increases in housing supply in the city must be compensated by corresponding vacancies in the suburbs. This implies an equilibrium condition in *levels*, assuming no vacancies at  $t = 0$ . For each counterfactual, we calculate equilibria under both the shares and levels assumptions and interpret these as upper and lower bounds, respectively, on the true counterfactual prices.<sup>49</sup>

## 5.4 Counterfactual Results

As a model validation exercise, we begin by calculating the model implied prices that equate the observed commuting-zone market shares (supply) and estimated demand (based on our demand model) just prior to the 2016 reform (the “baseline scenario”). This validation does not use our estimated supply model at all; the purpose here is to get a sense of how well the model implied prices can replicate observed listing prices when using our equilibrium calculation procedure. Figure A24 shows the correlation between model-predicted prices for the baseline scenario and the observed listing price data from the Properati multiple listing price service. Our model prices do a good job of replicating the observed market prices, with an  $R^2 = 0.75$ . Figure A25 similarly plots the observed demographic composition of zones (log of average income and share of household heads with college education) in the data against the demographics that would be predicted by the individual-level choice probabilities of the model at baseline.<sup>50</sup>

Table 5 presents the main zone-level results on prices and quantities from our simulations. All of the results show model simulated outcomes ten years after 2016 (i.e. predictions for 2026). Column 1 presents model simulated results assuming the 2004 zoning reform zoning stayed in place from 2016 to 2026, with an average maximum BAR of 1.55. Column 2 presents results for

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<sup>49</sup> To get a sense of migration patterns to Sao Paulo we looked at the fraction of 2010 census respondents who lived outside of the municipality as of 2005. Only 3.56 % of Sao Paulo city residents report having lived outside of Sao Paulo metropolitan area as of 2005 (average annual in-migration rate of .71 %). Among those recent migrants, 17.6% have a college degree, which is approximately 4% higher than the average college degree holding rate. The average income of these migrants is R\$900 reals per month, which is 10% less than the Sao Paulo city average. An even smaller share, .35% of Sao Paulo city residents, report living in the suburbs as of 2005. These migrants from the suburbs are 17 percentage points more likely to have gone to college and earn approximately R\$600 more per month. To summarize, the 2005 to 2010 migration to Sao Paulo is small, mostly comes from outside of the metropolitan area, and the average characteristics are similar to the Sao Paulo city as a whole. Given those numbers, we also assume in our simulations that the new households migrating from new construction will reflect the demographics of the city as a whole.

<sup>50</sup> The  $R^2$  are 0.89 and 0.96 for log income and college-educated share, respectively.

a simulation where zoning is changed according to the 2016 reform map in 2016, with a higher maximum BAR of 2.09. Column 3, the “Double BAR scenario” keeps BAR at the 2004 level for those blocks that had a BAR decrease in the 2016 reform, and doubles post-2016 reform BAR for all blocks that received a BAR increase in the 2016 reform. Even under the Double BAR scenario, the average maximum BAR in the city is still just 3.49, which is substantially lower than the BAR levels observed in the most permissive zoning regimes in the world.<sup>51</sup>

Table 5: Simulation results: prices and quantities

Scenario	2004 zoning	2016 zoning	Double BAR
Max BAR	1.55	2.09	3.49
<i>Panel A: Equating shares</i>			
New units (ths)	166.357	213.387	844.607
New units (share of stock)	0.068	0.087	0.343
Avg. price (ths of reales)	6.114	6.083	5.655
Inside share	0.587	0.591	0.637
Avg. zone income	4.819	4.809	4.659
Avg. zone education	0.307	0.306	0.288
<i>Panel B: Equating levels</i>			
New units (ths)	157.931	199.714	667.027
New units (share of stock)	0.064	0.081	0.271
Avg. price (ths of reales)	5.987	5.922	5.060
Inside share	0.606	0.615	0.713
Avg. zone income	4.804	4.790	4.614
Avg. zone education	0.306	0.305	0.285

Table shows zone-level results from equilibrium simulations under three different zoning scenarios, as indicated in table header. Double BAR scenario holds BAR constant at 2004 levels for all locations where BAR was reduced in 2016, and doubles the post-2016 BAR value in all locations where BAR was increased in 2016. First row shows average block-level maximum allowable BAR under each scenario. Panel A equates market shares in the equilibrium condition, implicitly assuming that all new construction within the city is occupied by new migrants from outside the MSA. Panel B equates levels in the equilibrium condition, implicitly assuming that all new construction in the city is occupied by migrants from the outside the city but within the MSA. Average price is thousands of reales per square meter. Inside share is fraction of households living within the municipality. Avg. zone income is in thousands of reales per household per year. Avg. zone education is fraction of households with a college degree.

Row 1 of each panel gives the total new units that are created within the city in 10 years as a result of the corresponding zoning policy; the totals exclude units created as a result of the city-wide growth trend. Row 2 shows the share of the total within city stock that the new units in row

<sup>51</sup> For example, Singapore has many plots allowing BAR levels in the 8 to 10 range.

1 represent. In Panel A, relative to a 10 year continuation of the 2004 zoning rules (Column 1), the model predicts that the 2016 zoning reform will produce approximately 47,030 net new housing units, or an approximate 1.9 percent increase in the housing stock of the city. The relatively small aggregate effect on the supply of housing is consistent with the fact the average BAR in the city only increased by 0.54, and did not change or was reduced in 48% of city blocks. In Column 3 we see that in the Double BAR reform scenario the housing stock in São Paulo increases by 27.5% relative to the 2004 zoning reform.

Row 3 gives the model-predicted average zone-level price in thousands of reais per square meter. Prices are similar in Columns 1 and 2, falling by only 0.5% on average, indicating that the 2016 reform has small impacts on average housing prices in São Paulo. Even under the Double BAR scenario we estimate only a 7.5% decrease in prices on average. One reason is that the suburbs are assumed to grow at an annual rate (1.6%) that is faster than the city (1%); so although the increase in housing units in the city is large relative to the stock of city housing, the supply increase relative to the total metropolitan area is smaller and therefore the price response is also commensurately smaller. Another reason is that we assume each unit vacated in favor of a newly constructed unit is filled by a new migrant to the MSA, dampening downward pressure on prices. But if we assume instead that the MSA is a closed economy, as in Panel B, we see substantially larger price reductions from the 2016 and Double BAR scenarios, at 1.1% and 15.5%, respectively, even as the equilibrium unit increase is somewhat smaller.

Rows 5-6 show that average zone-level demographics do not change much in the city, even with a very large shock. To explore the muted change in average city demographics, Figure A26 plots the average demographics for city and suburbs under the different scenarios considered so far.<sup>52</sup> The "Double BAR" scenario provides some insight in to why average city demographics are not changing in response to the zoning reform. Relative to the other scenarios, the "Double BAR" scenario shows that sweeping zoning reform in the municipality has the largest ramifications for the demographics of households living in the suburbs. At baseline, the suburbs are lower income and less educated. The large zoning shock leads to lower prices in the city, and the demand model suggests that higher income and more educated individuals will be more responsive to these lower prices, and therefore more likely to occupy the new housing. Because of this positive selection effect, these new residents are similar to the original city population. As a result, the city

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<sup>52</sup> The baseline scenario reflects our implied demographics from the demand side model prior to the 2016 reform. Note that these demographics are population-weighted, whereas those in Table 5 are zone-level averages.

demographics do not change much in response to the major zoning reform, while the suburban demographics change in response to out-migration of higher income and higher education individuals to the city. These simulations therefore suggest that the new housing built in São Paulo in response to even a major zoning reform are unlikely to house low income residents, and may in fact increase spatial inequality between the core and periphery.

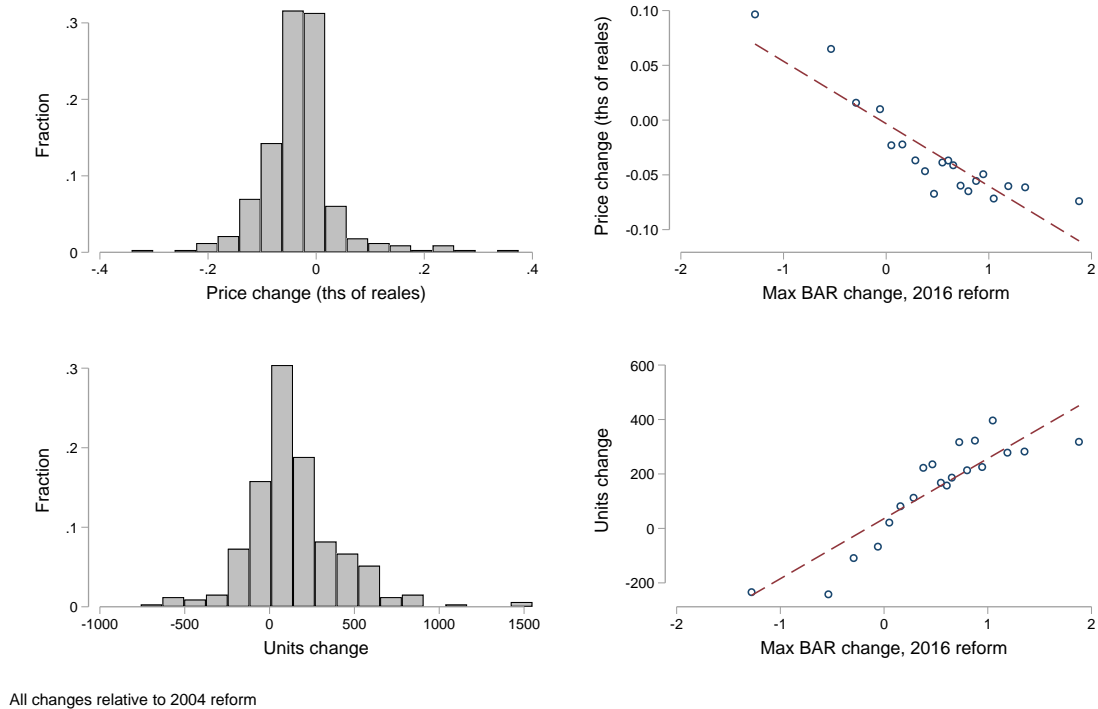


Figure 6: Equilibrium changes under the 2016 reform

The top-left figure shows the distribution, across commuting zones, of 2016 reform model simulated price changes relative to a continuation of the 2004 zoning regime. The bottom-left figure shows the same for number of housing unit changes. The top-right figure shows a bin-scatter of the 2016 reform model predicted commuting zone level price change against the average max BAR increase in the 2016 reform. The bottom-right shows the same bin-scatter, with the y-variable changes to increase in number of housing units within the commuting zone.

Figures 6 and 7 show that while there is only a small aggregate effect of the 2016 reform – consistent with the small overall change in the housing shock – there is substantial heterogeneity across the city, mostly predicted by where BAR changed most. Figure 6 plots the distribution of zone-level changes in prices and units, and then correlates them with the average BAR change within a commuting zone. As expected, places with larger BAR shocks see more construction and lower prices. Quantitatively, the largest price reductions are roughly R\$341 reais per meter



squared, or around 4.6% of that zone’s market price under the 2004 counterfactual. The largest supply shocks are approximately 1549 additional units, or around 17.1% of that zone’s housing stock under the 2004 counterfactual.<sup>53</sup> Figure 7 visualizes, geographically, the BAR change in the 2016 reform, as well as the model simulated predictions for changes in the number of housing units, prices, and market shares. BAR changes were larger in more outlying areas of the city, rather than in the denser core where BAR actually fell in many cases. As such, these more outlying areas saw lower prices and gained market share in a way that maps directly on to the BAR change.

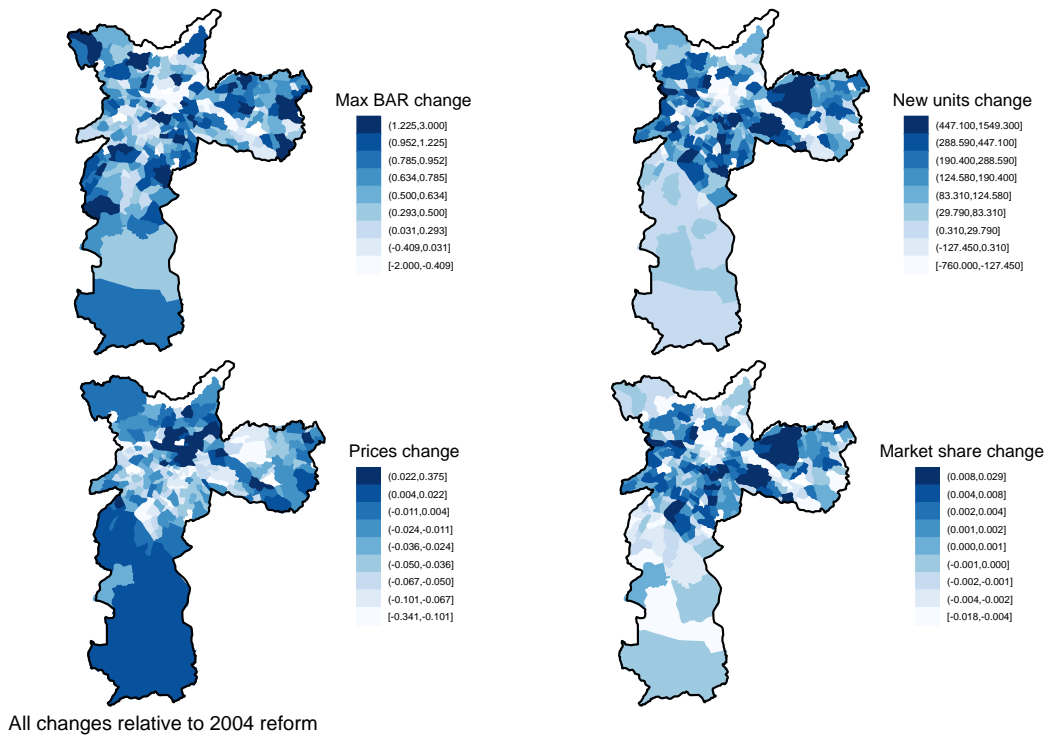


Figure 7: Equilibrium changes under the 2016 reform: map

The top-left figure shows the 2016 reform induced change max BAR by commuting zone. The other three figures show model simulated changes in new housing units (measured as number of units), prices (measured in thousands of reais per square meter) and market shares. Change means relative to the simulation where the 2004 zoning regime remained in place for 10 years after the 2016 reform.

<sup>53</sup> If instead we solve for equilibrium in levels, we find that the largest price effects are around 5.4% of the zone’s price under the 2004 counterfactual.

### 5.4.1 Welfare analysis

Table 6 presents our estimates of the 10 year welfare impacts of the 2016 reform and Double BAR scenarios relative to a continuation of the 2004 zoning policy.<sup>54</sup> The estimates in the table give per-household average consumer surplus gains in reais, except the bottom row which gives MSA-wide aggregate gains in millions of reais.<sup>55</sup> In columns (1) and (4) we update only the prices in calculating welfare in the new equilibrium, while in columns (2) and (5) we update prices and demographic and neighborhood characteristics. Focusing first on column (1), our model predicts that there is an unequal distribution of surplus across demographic groups. The average college educated household has an estimated gain relative to the 2004 zoning regime of R\$39.57 over ten years (approximately \$12.27 USD in total at 2016 exchange rates), and the highest income quintile has a similar R\$36.14 gain after ten years. High income and college groups are more price sensitive in our demand model, and therefore obtain the largest gains from the new housing supply. The aggregate welfare gains over 10 years are R\$136.44 million reais, or about \$42.3 million USD.

Column (2) shows there is approximately 4.3 times larger consumer surplus gains when we allow welfare to respond to changes in the demographic and neighborhood characteristics induced by our zoning reform. The aggregate welfare gain rises to R\$590.59 million, or about \$183.1 million USD. This is primarily because density increases and the age of housing units falls. These results suggest that most of the value of zoning comes through the presence of a newer housing stock and greater density, as opposed to price reductions.<sup>56</sup> Interestingly, the unequal distribution of surplus across income quintiles actually narrows slightly once we incorporate changes in neighborhood characteristics, because poorer households have a greater taste for newer units. Inequality also emerges between renters and owners after updating  $X$  because owners prefer newer buildings. Finally, after accounting for effects on housing and demographic characteristics, the Double BAR scenario in column (5) produces much larger consumer surplus gains, at R\$2,190.85 reais (\$679.16 USD) per household, or R\$11.75 billion (\$3.64 billion USD) in aggregate. Lastly in columns (3) and (6), we account for the role of increased congestion arising from greater densification, given households' disutility of commuting time. These congestion effects erode the aggregate welfare

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<sup>54</sup> Table A12 presents corresponding results for the equilibrium in levels.

<sup>55</sup> Consumer surplus is calculated as the "inclusive value," also known as the logsum, from Small and Rosen (1981), which gives the ex-ante expected value of a utility-maximizing choice for consumer  $i$ , normalized by the individual-specific price coefficient.

<sup>56</sup> In Table A13 we decompose the effect of each housing characteristic and confirm that age and density are the largest contributors to these welfare gains.

Table 6: Simulation results: individual-level consumer surplus

Scenario	2016 zoning			Double BAR		
	$P$	$X$	$\tau$	$P$	$X$	$\tau$
	(1)	(2)	(3)	(4)	(5)	(6)
By demographic group						
Owner	25.08	117.21	115.79	330.01	2296.87	2238.40
Renter	26.55	88.95	87.33	388.08	1872.71	1816.47
Non-college	21.59	97.71	96.51	287.48	1956.74	1903.41
College	39.57	155.62	153.17	553.06	3046.70	2972.07
By income quintile						
1	19.69	90.82	89.74	263.88	1851.98	1800.69
2	21.31	99.11	97.85	280.45	1936.10	1883.44
3	23.38	105.95	104.59	314.09	2111.00	2054.88
4	27.33	120.27	118.63	372.71	2383.33	2321.37
5	36.15	136.70	134.65	500.54	2711.15	2642.80
Totals						
Full sample	25.45	110.15	108.68	344.52	2190.85	2132.94
Aggregate consumer surplus (mm reales)	136.44	590.59	582.70	1847.25	11746.87	11436.37

Table shows per-household expected change in consumer surplus from equilibrium simulation of the 2016 zoning reform and Double BAR reform for different subgroups, measured in Brazilian reais. Bottom row shows the total consumer surplus aggregating across all households in millions of reais. Columns (1) and (3) update only equilibrium prices from the 2016 reform scenario, while columns (2) and (4) update both prices and the housing and neighborhood attributes included in  $X_j$ . Columns (3) and (6) update all variables, including travel time  $\tau$ . All changes are evaluated relative to 2004 (status quo) zoning.

gains by 1.3% and 2.6% for the 2016 reform and the Double BAR scenario, respectively.<sup>57</sup>

The results above described changes in welfare for households in the Sao Paulo metropolitan area, according to their expected value of all neighborhood options. However, zoning reforms present other costs and benefits that may influence the political passage of such densification measures. In Table 7 we show aggregate estimates for five additional measures of costs and benefits: changes in nominal housing wealth for existing homeowners and landlords, changes in developer profits, welfare gains for new residents, and changes in city productivity. The first row of Table 7 reprints the final aggregate welfare gain estimates from Table 6 for the equalizing shares equilibrium. The second and third rows show how housing wealth varies by type of reform relative to the 2004 policy status quo. Our simulation predicts that homeowners and landlords will face nominal

<sup>57</sup> Appendix Figure A27 displays individual-level changes in expected commuting time and decomposes these changes into location and population effects.

Table 7: Comparison of welfare estimates and other policy effects

Scenario	2016 Reform		Double BAR	
	R\$ bi	% of GDP	R\$ bi	% of GDP
Change in welfare	0.58	0.08	11.44	1.63
Change in value - homeowners	-9.88	-1.41	-123.57	-17.65
Change in value - landlords	-3.29	-0.47	-44.90	-6.41
Change in developer profits	3.96	0.57	52.38	7.48
New resident welfare gains	0.0051	0.001	1.45	0.21
Change in productivity	0.80	0.11	11.56	1.65

Table shows calculations for policy effects on consumer welfare, housing wealth, and developers' profits, from equilibrium simulations under two different zoning scenarios, as indicated in table header. Double BAR scenario holds BAR constant at 2004 levels for all locations where BAR was reduced in 2016, and doubles the post-2016 BAR value in all locations where BAR was increased in 2016. All gains and losses are evaluated relative to the 2004 status quo simulation. Developers are assumed a 10% profit margin on total housing revenues. Homeowners refers to value of all owned-occupied units, landlords refers to value of all rental units. GDP refers to 2017 total output of Sao Paulo city. All simulations equate market shares in the equilibrium condition, implicitly assuming that all new construction within the city is occupied by new migrants from outside the MSA.

house price losses of R\$11.11 and R\$3.89 billions due to the 2016 reform, respectively. Together, these losses are much larger than the welfare gain of \$0.67 billion due to more housing options, and can partially explain why existing real estate owners fear zoning reforms that promote more densification.<sup>58</sup> The contrast between changes in house values and welfare is even higher for the Double BAR scenario, given the larger price effects.

On the other hand, row 4 shows that developer profits increase by approximately R\$4.47 billion.<sup>59</sup> The aggregate losses to local homeowners are larger than the gains to developers, suggesting that if lobbying efforts for zoning reform are proportional to the potential gains/losses from the zoning, cities around the globe would be unlikely to approve a zoning reform similar to the one implemented in Sao Paulo, much less a Double BAR style reform. Row 5 shows potential welfare gains for new residents, given that more housing allows the migration of new households.<sup>60</sup> Given the relatively small number of extra new houses built because of the 2016 reform, the aggregate consumption gains from new residents is also small. Gains for new residents become sizeable

<sup>58</sup> One important caveat with such housing wealth losses is that housing consumption does not change as house prices fall. Moreover, homeowners are always able to sell their existing homes and buy other houses of similar quality given that price drops occur across the city. Landlords, on the other hand, mostly care about returns on their investment, so the nominal losses represent real reductions in profits.

<sup>59</sup> Predicted developer profits are calculated as the total value of new developed housing units times a mark up of 10% which is a conservative estimate of mark ups for real estate development.

<sup>60</sup> For this calculation we use the conservative assumption that new residents, on average, would have the same welfare benefit as that of existing residents.

only in the Double BAR scenario, as a much larger number of people can now move to the city.

Finally, the last row shows a back-of-the envelope calculation of the potential effect of zoning reform on productivity. For this exercise we heavily rely on the estimates of Glaeser and Gyourko (2018).<sup>61</sup> We find that future gains in productivity could be R\$0.92 billion, and are another potential justification for increasing densification.

## 6 Conclusion

The impact of zoning on housing markets was one of the most important and hotly debated subjects prior to the Covid-19 pandemic, and is likely to regain its status as the pandemic ebbs and increases in cost of living return to the forefront of household worries. In this paper we contribute to the literature by studying the impact of a 2016 zoning reform in São Paulo that increased the ability of developers to supply housing units by lifting limitations on permitted densification on a block-by-block basis. Using a spatial discontinuity design and the timing of the reform, we find that developers responded swiftly to obtain approximately 65 percent more permits in blocks that relaxed zoning rules.

More importantly, we develop a framework to estimate welfare of local residents by integrating the spatial RD design in to a supply and demand model of residential housing, where we can estimate structural demand and supply parameters, and then simulate ten year forward outcomes of prices, built environment, household sorting, and welfare. Our framework accounts for both costs and benefits of densification, which allows for a more complex picture of the effects of zoning reforms.

We find small aggregate price and supply changes due to the fact the aggregate supply response induced by the 2016 reform is small relative to the São Paulo housing stock. Our welfare analysis suggests that higher income and education groups benefit the most from the reform, due to their greater price sensitivity and the ability to move from the suburbs to areas in the city that are closer to workplaces. Moreover, welfare gains are four times larger when accounting for changes in the built environment of the city, especially with respect to neighborhood density and age of buildings. This suggests a fair amount of the economic value of zoning reforms comes through

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<sup>61</sup> Glaeser and Gyourko (2018) find that a dramatic zoning reform across all cities in the United States - that allow the movement of enough workers to equalize wages across all cities - would generate a GDP gain of 2%. Assuming Sao Paulo in Brazil plays an analogous role in the Brazilian economy as that of New York city in the United States economy, and also accounting for the relative magnitude of new housing developed due to the 2016 reform in Sao Paulo, we can back out potential productivity gains. See Online Appendix for details of the calculation.

the presence of newer housing stock, as opposed to lower prices.

We also show that more aggressive zoning reforms produce much larger welfare gains. In fact, the framework developed here can produce results for any desired reform, including estimating heterogeneity in effects by neighborhood. Finally, we show that such reforms negatively impact the housing wealth of existing homeowners and landlords, which may generate political backlash in the form of NIMBYism - even though those same homeowners should not fear dramatic changes in the socio-economic composition of neighbors.

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