

# ARIZONA FEDERATION OF TAXPAYERS

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## “Smart Growth” Makes Housing Unaffordable

Urban-growth boundaries and other so-called smart-growth rules penalized Arizona homebuyers by at least \$4 billion in 2005. These rules drive up the price of housing by creating barriers that prevent homebuilders from meeting the demand for new housing.

Homebuyers in Houston can find very nice, four-bedroom, two-and-one-half bath homes for sale for just \$150,000, says Coldwell Banker. Similar houses would cost \$250,000 in Tucson or Mesa, \$300,000 in Phoenix, and \$425,000 in Flagstaff.

Unaffordable housing is a new problem in Arizona. As recently as 1999, median-income families in most Arizona cities could spend 25 percent of their incomes on housing and pay for a median-priced home in just 11 to 13 years. Today it would take 20 to 33 years. At current rates, Arizona will soon be like coastal California cities, where homeownership is affordable only for the very rich.

States and cities with affordable housing almost invariably see housing prices rapidly rise soon after passing smart-growth laws or implementing local smart-growth plans. High housing prices are the penalty Arizonans pay for smart-growth planning policies such as urban-growth boundaries and open-space preservation efforts.

Flagstaff, Phoenix, Prescott, and Tucson homebuyers paid penalties of \$37,000 to \$76,000 per median-value home in 2005. These estimates are conservative and actual penalties average at least 25 percent greater. The penalties are highest in Flagstaff because Flagstaff was the first to adopt an urban-growth boundary.

These penalties greatly outweigh any of the possible benefits of smart-growth planning. According to the most widely quoted report on the costs of sprawl, for example, urban-service costs to low-density homes are just \$11,000 more per home than to higher-density homes. Why should every homebuyer pay several times this amount so that cities can save a little money on new homes alone?

Homeownership is more than just an American dream. It is important for the livability of American cities. Most small businesses are initially financed with loans secured by the business owner's home. Children in

low-income families who own their homes do better in school than children in similar families who rent.

The impacts of high housing prices will reverberate throughout the state.

- Economic growth is likely to slow as employers look elsewhere to locate their offices and factories;
- Homeowners who think they benefit from higher home values will be shocked to find that prices are also more volatile, falling 20 to 25 percent or more during recessions;
- Low-income workers will end up commuting long distances to find housing they can afford.

While homeowners might cheer the high home prices that result from planning-induced housing shortages, the losers far outnumber the winners. For every homeowner who sells at a profit and trades down, there are homebuyers who must pay outrageous prices for homes; homeowners who would like to trade up but cannot afford to do so; and rural landowners whose properties have been devalued by zoning restrictions.

The saddest part is that Arizona's smart-growth rules have the regressive effect of penalizing low-income families while providing windfall profits for wealthy homeowners. Unaffordable housing won't help the fact that nearly three out of four white families in Arizona own their own homes, but only about half of black and Hispanic families do.

It is particularly absurd for government planners to place such a premium on open-space preservation in a state that the U.S. Department of Agriculture says is 98 percent rural open space. When open space is abundant and housing is scarce, government should make housing the higher priority.

Arizona should quickly review its laws, ordinances, and policies and repeal those that make housing unaffordable. Open-space protection should be left to land trusts or other private organizations. Other issues associated with urban development should be dealt with through user fees that allow people to choose how they want to live while insuring that everyone pays the cost of their choices. Only in this way can the American dream be made accessible to everyone.

# Key Findings and Recommendations

## Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on homebuyers totaling more than \$275 billion nationally and \$4 billion in Arizona in 2005.

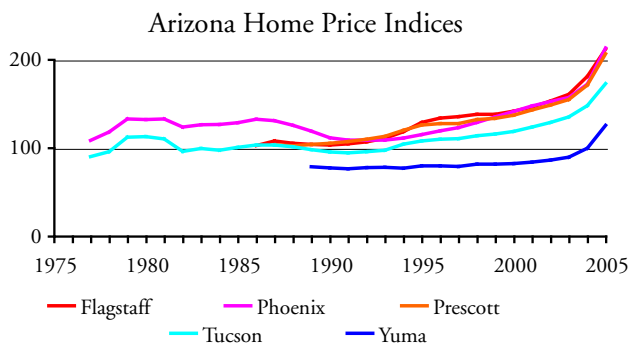
*The national figure is four times the cost of urban congestion as calculated by the Texas Transportation Institute's latest urban mobility report.*

- More than 90 percent of this cost was in just twelve states whose cities have especially strict land-use controls such as growth boundaries, greenbelts, growth caps, or concurrency rules.

*Leading states include Arizona, California, Colorado, Florida, Massachusetts, Oregon, and Washington.*

- Flagstaff and Prescott homebuyers paid penalties greater than \$72,000 per median-value home in 2005; penalties were \$55,000 per home in Phoenix, \$37,000 in Tucson, and \$18,000 in Yuma.

*These penalties are conservatively calculated and the real numbers probably average 25 percent more.*



*Urban-growth boundaries, greenbelts, and other land-use restrictions have caused inflation-adjusted housing prices to rapidly grow in recent years, making housing unaffordable for many low-income families and first-time homebuyers. The chart shows median-home values in thousands of dollars.*

- These penalties dwarf the so-called costs of sprawl. According to *The Costs of Sprawl 2000*, providing urban services to low-density housing costs just \$11,000 more per home than to compact development.

*Why should every homebuyer in a metropolitan area pay \$37,000 to \$72,000 more just so cities can save \$11,000 on a few new homes?*

- Nor are such rules needed to protect open space as 95 percent of the United States, and 99 percent of Arizona, remains as rural open space.

*Government efforts to protect open space at the expense of higher housing costs is a tragic misplacement of priorities.*

- The problem is supply, not demand: Cities like Austin, Atlanta, and Raleigh are growing as fast as Phoenix, Tucson, or Flagstaff yet have maintained affordable housing. Prices in cities with fewer land-use restrictions have been growing at 1 to 3 percent per year, compared with 7 to 8 percent per year in Arizona cities.

## Recommendations

- Arizona cities and counties should review their plans and zoning ordinances and remove any requirements that could limit the ability of homebuilders to meet demand for new homes.
- The Arizona legislature should repeal its “growing smarter” laws and resist efforts by planning advocates to impose stronger planning requirements on cities and counties.
- The “costs of sprawl” should be handled with fair property taxes and user fees that allow people to choose where they want to live but make sure they pay the full cost of their choices.
- Government should leave the protection of open space to land trusts and other private groups.
- Cities and counties should avoid inclusionary zoning ordinances, which assist only a few people but can increase housing costs for everyone else.

## For Further Information

This briefing paper summarizes *The Planning Penalty: How Smart Growth Makes Housing Unaffordable*. This report was published by the Arizona Federation of Taxpayers in cooperation with the American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems. Go to [aztaxpayers.org](http://aztaxpayers.org) to download the complete report. Numerous data files and other background information are available at [americandreamcoalition.org](http://americandreamcoalition.org).