

“Smart Growth” Makes Housing Unaffordable

Florida is moving at high speed towards a dangerous precipice. If it continues on its present course, it will suffer such high housing costs that only the very rich will be able to enjoy the American dream of homeownership. Only if it quickly changes course will it remain a state whose housing is affordable for people of all income levels.

Long one of the fastest-growing states in the nation precisely because most of its cities enjoyed affordable housing, Florida has recently seen spectacular increases in home prices. In the last six years alone:

- Prices in Fort Lauderdale, Fort Myers, Fort Pierce, Melbourne, Miami, Naples, Punta Gorda, Sarasota, and West Palm Beach have doubled or nearly doubled;
- Daytona Beach, Fort Walton Beach, Orlando, Panama City, St. Petersburg, and Tampa prices increased by 60 to 90 percent;
- Prices elsewhere increased by 45 to 55 percent.

Contrary to popular reports, this is not a national phenomenon: Over the same time period, prices in such fast-growing cities as Atlanta, Austin, and Raleigh grew by only 10 to 20 percent. Today, you can buy a beautiful, four-bedroom home in Austin for under \$200,000. That same home would cost \$300,000 in Tallahassee, \$350,000 in Daytona Beach, \$400,000 in Ft. Lauderdale, and \$430,000 in West Palm Beach.

These high prices are fast putting homeownership out of sight for low-income families and many would-be first-time homebuyers. In 1999, median-income families in most Florida cities could spend a quarter of their income on housing and pay off a mortgage on a median-priced home in just 9 to 11 years. Today, in many Florida cities it would take 20 to 35 years or more.

As has already happened in California, the impacts of such high 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.

What caused home prices to rise so fast? Unaffordable housing almost invariably follows the implementation of growth-management plans such as those written under Florida's 1985 Growth Management Act. The chart on the next page shows that Florida home prices started

rising almost immediately after the plans written under that law went into effect in the early 1990s. These plans created barriers that prevent homebuilders from meeting the demand for new homes.

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.

Last year alone, Florida homebuyers paid more than \$20 billion in penalties due to growth-management planning. These penalties dwarf any of the benefits of such planning.

Florida is fast becoming another California, a once-affordable state whose growth-management plans resulted in the least affordable housing in the country. The \$200,000 Austin home that would cost \$400,000 in Ft. Lauderdale would cost \$630,000 in San Diego, \$900,000 in Los Angeles, and well over \$1 million in Oakland, San Francisco, or San Jose. California incomes are not significantly higher than those in Florida, which means families in that state must settle for apartments or, at best, far smaller homes than most other Americans enjoy.

Before Florida prices reach this level, the state should stop and reconsider: Is it really fair to impose huge costs on low-income families and first-time homebuyers in order to provide windfall profits for relatively wealthy homeowners? Are the benefits of growth management really worth this huge cost? This report recommends that the Florida legislature repeal the growth management act and that cities and counties carefully review their plans and remove any barriers that prevent homebuilders from meeting the demand for housing.

This briefing paper is based on The Planning Penalty: How Smart Growth Makes Housing Unaffordable, published by the American Dream Coalition. For the full report, go to americandreamcoalition.org.

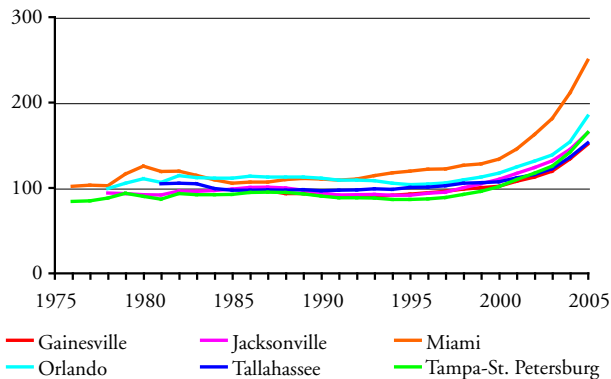


Key Findings and Recommendations

Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on homebuyers totaling more than \$275 billion nationally and \$17 billion in Florida 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. *The worst states include Arizona, California, Colorado, Florida, Massachusetts, Oregon, and Washington.*
- Miami and Naples homebuyers paid penalties of \$125,000 to \$175,000 per median-value home in 2005, while homebuyers in many other Florida cities paid penalties of \$25,000 to \$100,000. *These penalties are conservatively calculated and the real numbers probably average 25 percent more.*

Florida Home Price Indices



After decades of affordable housing, Florida prices began rising soon after cities wrote growth-management plans. The numbers in the chart are approximately the cost of a median-value home in thousands of inflation-adjusted 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 \$25,000 to \$175,000 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 86 percent of Florida, remains as rural open space. *When housing is scarce and open space abundant, 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 many Florida cities, yet have maintained affordable housing.

Recommendations

- Florida 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 Florida legislature should repeal the 1985 growth-management act and resist efforts by planning advocates to impose stronger planning requirements on cities and counties.
- Cities and counties should deal with the “costs of sprawl” by using 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 provide affordable housing for 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 American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems. Go to americandreamcoalition.org to download the complete report as well as numerous data files and other background information.