

Institute Brief

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“Smart Growth” Makes Housing Unaffordable

Iowa has some of the most affordable housing in the nation. But the state can quickly lose this advantage if the legislature passes so-called “smart-growth” laws requiring cities to write restrictive land-use plans. Data from other states reveals that such laws almost invariably lead to rapidly rising housing prices, making housing unaffordable to most families.

In 1989, for example, housing in Minneapolis-St. Paul was no less affordable than in Des Moines or Iowa City. But then the Twin Cities imposed an urban-service boundary outside of which development was heavily restricted. This significantly increased land prices and today housing is far less affordable while Iowa housing is still very affordable.

According to Coldwell Banker, a four-bedroom home suitable for a “corporate middle manager” would cost about \$200,000 in Iowa City and even less in many other Iowa cities. But that same house would cost \$390,000 or more in Minneapolis or St. Paul.

These sorts of land-use restrictions were pioneered by Boulder, Colorado and various cities in California in the 1970s. Housing in these cities has become catastrophically unaffordable: the \$200,000 Iowa City house would cost \$550,000 in Boulder and more than \$1.1 million in Oakland, San Francisco, or San Jose.

Smart-growth advocates say that their rules are needed to protect open space and promote urban livability. But open space should not even be an issue in Iowa, which the U.S. Department of Agriculture says is more than 95 percent rural open space. (The Department adds that urbanization is “not considered a threat to the nation’s food supply.”) According to the 2000 census, 80 percent of Iowans live on less than 4 percent of the land.

Planning advocates also forget that affordable homeownership is an important part of urban livability. Children of low-income families who own their own homes do better in school than children in similar families who rent. Most small businesses get their start with the help of a loan secured by the business owners’ home. People who own their own homes take better care

of them and so have a higher quality of life.

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.

Some people may question whether government should try to increase homeownership. But few would openly argue that government should try to reduce it. Yet that is the most important effect of smart-growth policies that drive up housing costs. Homeownership rates have declined in states like Oregon and California that first adopted such policies in the 1970s.

While housing in Iowa cities is affordable today, that will remain true only so long as government does not stand in the way of homebuilders who are trying to meet the demand for new homes. Impediments such as urban-growth boundaries, lengthy planning processes, complicated design codes, restrictive zoning, and open-space preservation programs all can significantly drive up housing costs. State and local officials should resist pressures to impose such restrictions.

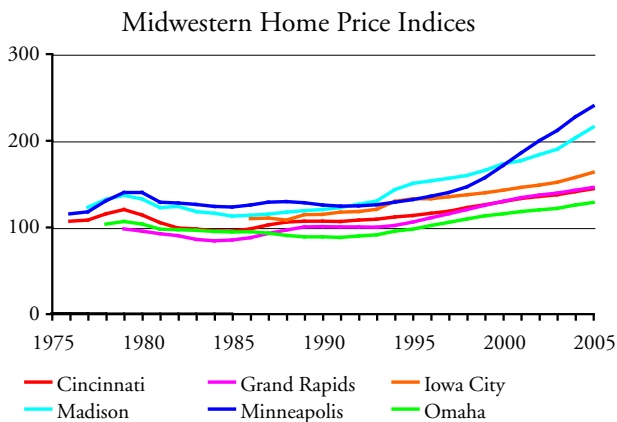
The issues that planners claim to address can be much better resolved in other ways. Open space, for example, is best protected by land trusts and other private organizations. The U.S. Department of Agriculture estimates that nearly 90 percent of Georgia is rural open space. When funding for education, transportation, and other vital programs is scarce, it is absurd for states to spend government money or use government regulation to protect such an abundant resource.

Other issues, such as urban-service costs, can best be dealt with through user fees rather than regulation. Such user fees can give people the freedom to choose how they want to live while insuring that they pay the full costs of their choices. This will help keep the American dream accessible to every Iowa family.

Key Findings and Recommendations

Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on U.S. homebuyers totaling \$275 billion in 2005. *This 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.*
- Homebuyers in more than fifty metropolitan areas paid penalties of \$100,000 to \$850,000 per median-value home in 2005. Homebuyers in another fifty metropolitan areas paid penalties of \$25,000 to \$100,000 per home. *These penalties are conservatively calculated and the real numbers probably average 25 percent more.*



In the last decade, housing prices in the Twin Cities and Madison, which both have smart-growth plans, have risen far faster than incomes, resulting in a decline in affordability. Other Midwestern cities have remained affordable. The chart shows the value of a median home in thousands of inflation-adjusted dollars.

- These penalties dwarf the so-called costs of sprawl. According to *The Costs of Sprawl 2000*, low-density housing adds just \$11,000 per home in urban-service costs compared with more compact development. *Why should every homebuyer in a metropolitan area*

pay \$25,000 to \$850,000 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 both Iowa and the U.S. as a whole 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 much faster than high-priced cities, yet their housing prices are not rapidly increasing and they have maintained affordable housing.

Recommendations

- Iowa 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 Iowa legislature should resist efforts by planning advocates to impose smart-growth planning requirements on cities and counties.
- Cities should deal with the “costs of sprawl” by using fair 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 March 2006 report was published by the Public Interest Institute in cooperation with American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems. Go to limitedgovernment.org to download the complete report and to americandreamcoalition.org to download numerous data files and other background information.