



# Briefing Paper

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## “Smart Growth” Makes Housing Unaffordable

The urban-service boundary and other planning rules imposed by the Metropolitan Council cost Twin Cities homebuyers close to \$2 billion in 2005. This does not include the cost to renters or to purchasers of retail, commercial, or industrial property. Such so-called “smart-growth” policies can quickly make housing unaffordable, greatly reducing urban livability.

Twin Cities homebuyers paid a planning penalty of at least \$32,000 per median-value home in 2005. This is a conservative estimate and the real cost may be 25 percent more. This greatly exceeds any benefit such rules provide.

For example, the most widely quoted report on the costs of sprawl estimates that urban-service costs to low-density housing are just \$11,000 more per home than to higher-density housing. Why should every homebuyer in the region pay three times this amount so that cities can save \$11,000 on new homes alone?

It is particularly ironic that a region that considers itself to be progressive would impose rules whose effects are entirely regressive. The penalties of high housing costs fall heaviest on low-income families and first-time homebuyers, while they provide windfall profits for relatively wealthy homeowners and landowners inside the boundary. This is particularly critical in the Twin Cities, where the 2000 census found that three-fourths of white families own their own homes but more than two-thirds of black families cannot afford to do so.

Moreover, the losers from such policies vastly outnumber the winners. Homeowners only win if they are willing to sell their homes and trade down to a smaller home or move to a community that has less-restrictive land-use rules. Homeowners who want to trade up or move to a more restrictive community face penalties that are nearly as formidable as those confronting first-time homebuyers. Meanwhile, losers include most homebuyers as well as rural landowners whose property is downzoned by the plans.

Even more disturbing is the fact that the Minnesota legislature passed a 1997 law encouraging other cities

in Minnesota to write the same kinds of plans that have made Twin Cities housing increasingly unaffordable. Housing prices are already rising rapidly in Rochester and St. Cloud and will soon be unaffordable in those metropolitan areas as well.

Minnesota lawmakers should be concerned about housing affordability for several reasons:

- **Wealth production:** Most small businesses in America get their start with a loan secured by the business-owner’s home;
- **Education:** Children in families—especially low-income families—that own their own homes do better in school than in similar families who rent;
- **Lifestyle:** Because people who own their homes take better care of them than renters, they enjoy a higher quality of life.

Some people may question whether it is appropriate for government to try to increase homeownership. But few would openly argue that government should try to reduce homeownership. 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.

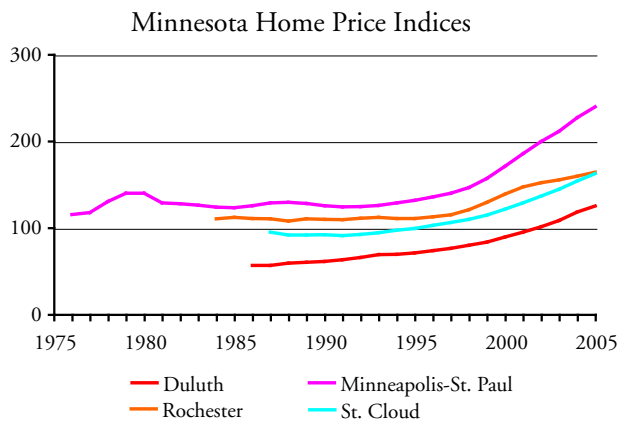
But don’t we need to control sprawl to protect farms and open spaces? Not really. The US Department of Agriculture says 96 percent of Minnesota remains in farms and rural open space, adding that urbanization is “not considered a threat to the nation’s food production.” Considering the abundance of open space and the scarcity of housing, housing should be a much higher priority for government law- and policy-makers.

Will Minnesota be an egalitarian state, with homes affordable to almost any family that wants to live here? Or will it protect a few acres of open space, which would be abundant in any case, at the expense of becoming an elitist city where only the very rich can afford to own homes? The choice Minnesota makes will reveal its true ideals as a progressive state or one that takes from the poor to give to the rich.

# 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 \$2 billion in Minnesota 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.*
- Twin Cities homebuyers paid penalties of about \$32,000 per median-value home in 2005. *This penalty is conservatively calculated and the real numbers probably average 25 percent more.*



*In the last decade, housing prices in the Twin Cities, and to a lesser degree in other Minnesota metro areas, have risen far faster than incomes, resulting in a decline in affordability. The chart shows the approximate 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*, 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 \$32,000 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 96 percent of Minnesota, 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 Minnesota cities, yet their housing prices are not rapidly increasing and they have maintained affordable housing.

## Recommendations

- Minnesota 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 Minnesota legislature should repeal the state's community-based planning law and resist efforts by planning advocates to impose more 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 Taxpayers League of Minnesota in cooperation with American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems. Go to [taxpayersleague.org](http://taxpayersleague.org) to download the complete report and to [americandreamcoalition.org](http://americandreamcoalition.org) to download numerous data files and other background information.