



Briefing Paper

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“Smart Growth” Makes Housing Unaffordable

Montana is the land of Big Skies and wide-open spaces. The idea that there could be a shortage of land for housing seems absurd. Yet urban planners in some Montana counties have managed to create housing shortages that cost homebuyers in those cities tens of thousands of dollars per home.

Growth-management plans and other planning restrictions such as those passed by Flathead, Gallatin, and Missoula counties cause housing prices to increase far more rapidly than incomes. The resulting unaffordable housing imposes severe burdens on low-income families and first-time homebuyers. Homebuyers in these counties must pay penalties of \$60,000 or more per median home.*

A house that costs \$150,000 in Billings or Great Falls would cost nearly \$300,000 in Bozeman or Missoula. That same house would cost nearly \$550,000 in Boulder, Colorado, and more than \$1.1 million in Oakland or San Jose, all of which have tried to manage their growth since the 1970s.

Advocates of such planning say it creates more livable communities and helps protect open space. But open space is not endangered in the United States, and certainly not in western states such as California, Colorado, and Montana, which are 95 to 99 percent rural open space.

Moreover, homeownership is an important part of livability. Studies show, for example, that children in low-income families that own their own homes do better in school than those who live in rental housing. Homeowners can use the equity in their homes to start small businesses or put their children through college. Because homeowners take better care of their homes than renters, they enjoy a higher quality of life. Yet planning restrictions in states like Oregon and California have led to declines in homeownership rates.

Nor are such restrictions needed to reduce the so-called costs of sprawl. The most widely quoted study on such costs found that low-density housing imposes only about \$11,000 more urban-service costs per home

than high-density housing. Yet Missoula’s planning restrictions have added at least \$60,000 to the cost of each median-value home. The costs of sprawl can best be dealt with through a system of user fees designed to insure that everyone pays their fair share of urban-service costs.

The impacts of high housing prices will reverberate throughout a state or region:

- 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.

It is particularly sad and ironic that the people in Missoula and other cities who support restrictive land-use planning consider themselves progressive, yet the effects of planning on home prices are entirely regressive. Planning-induced housing shortages place enormous burdens on low-income families but create windfall profits for wealthy homeowners. Does this steal-from-the-poor, give-to-the-rich policy reflect the true attitudes of people in Flathead, Gallatin, and Missoula counties?

Montana cities and counties should carefully review their ordinances and plans and repeal those that make housing unaffordable. Open-space protection should be left to land trust 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 every Montana family.

* *This paper is based mainly on data for metropolitan areas of 50,000 people or more. Because Gallatin and Flathead counties do not yet qualify, data for these areas comes from other sources. Those sources show these counties face the same housing problems as Missoula.*

Key Findings and Recommendations

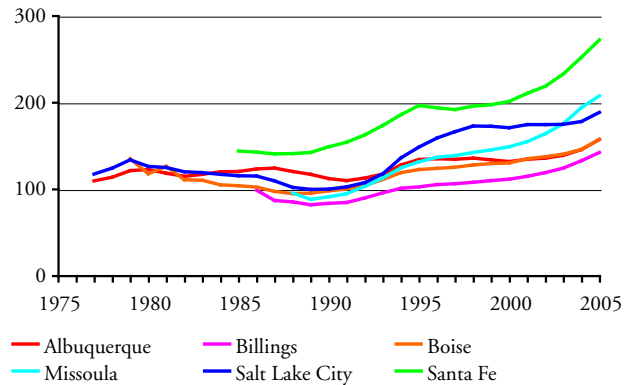
Findings

- 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.*
- Missoula homebuyers paid penalties of about \$60,000 per median-value home in 2005. Penalties in Flathead and Gallatin counties were similar. *These penalties are conservatively calculated and the real numbers probably average 25 percent more.*
- 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 \$60,000 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 Montana, 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 Montana cities, yet their housing prices are not rapidly increasing and they have maintained affordable housing.

Recommendations

- Montana cities and counties should review their plans and zoning ordinances and remove any requirements that could limit the ability of

Mountain States Home Price Indices



In the six years, housing prices in Missoula have risen far faster than incomes, resulting in a decline in affordability, while Boise, Billings, and other nearby cities remained affordable. The chart shows the approximate value of a median home in thousands of inflation-adjusted dollars.

homebuilders to meet demand for new homes.

- The Montana legislature should 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 Montana Policy Institute, a nonpartisan research and educational organization, in cooperation with American Dream Coalition, a national coalition of people who support free enterprise and free-market solutions to urban problems. Go to montanapolicy.org to download the complete report and to americandreamcoalition.org to download numerous data files and other background information.