

“Smart Growth” Makes Housing Unaffordable

Utah is on the verge of a housing crisis. State and local officials have it in their power to prevent that crisis or make it catastrophic.

Utah housing prices have been rising rapidly—risks typically associated with so-called “smart-growth” policies and other land-use restrictions. While Utah housing is not yet as unaffordable as housing in many coastal cities, in recent years it has grown much less affordable than in other cities that impose fewer restrictions on landowners and homebuilders.

For example, Coldwell Banker says that a four-bedroom home suitable for “corporate middle managers” would cost \$150,000 in Houston and less than \$200,000 in Austin. But that same home would cost \$240,000 in Provo and more than \$260,000 in Salt Lake. If Utah is not careful, the price of such a home will soon be as high as in Portland—more than \$300,000—or San Jose—more than \$1 million.

Utah housing was affordable in 1989. A median-income family in Salt Lake City, for example, could devote 25 percent of its income to a mortgage and pay for a median-value home in just 13 years. Since 1989, however, home prices have increased faster than incomes and, despite lower interest rates, it would take 17 years for a family to pay for such a home today.

Starting in the mid-1990s, Utah officials were pressured by smart-growth groups such as Envision Utah to adopt the same kinds of land-use restrictions as Portland or San Jose, both of which have urban-growth boundaries and numerous other planning rules. While Utah’s rules are so far not as strict as those in coastal cities, they have led to a decline in housing affordability.

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 Utah, more than 98 percent of which is rural open space. According to the 2000 census, more than 88 percent of the people in Utah live on less than 1 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. Home equity can also be used to put children through college and to help finance retirement.

If state and local officials approve any further land-use restrictions, 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;
- Homeownership rates are likely to decline—as they have in Oregon and California—leading to a lower quality of life for people who must rent;
- 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.

Many cities whose housing has become unaffordable due to restrictive planning rules passed more rules requiring homebuilders to sell a share of the houses to low-income families at less than market value. Such rules actually make affordability problems worse. The homebuilders naturally make up their losses by raising the price of the rest of their homes, which then leads sellers of existing homes to raise their prices as well.

Before Utah’s housing crisis gets any worse, Utah officials should review state laws and local ordinances 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 everyone.

Key Findings and Recommendations

Findings

- Housing shortages caused by restrictive land-use planning and regulation imposed penalties on homebuyers totaling \$275 billion nationally and nearly \$500 million in Utah 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.

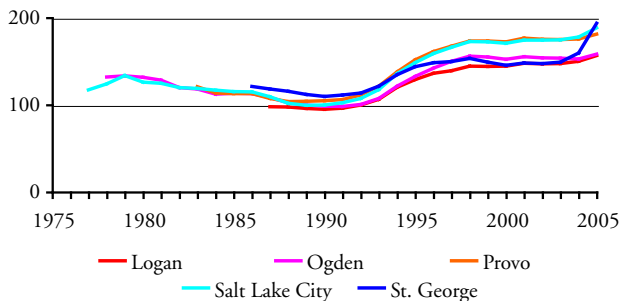
- More than 90 percent of this cost was in just twelve states whose cities have especially strict land-use controls such as growth boundaries, greenbelts, growth caps, or concurrency rules.

The worst states include Arizona, California, Colorado, Florida, Massachusetts, Oregon, and Washington.

- Provo-Orem homebuyers paid penalties of \$29,000 per median-value home in 2005, while penalties were \$18,000 per median home in Salt Lake City-Ogden.

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

Utah Home Price Indices



When prices (shown here adjusted for inflation) increase faster than incomes, housing becomes unaffordable. 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 \$18,000 to \$29,000 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 Utah, 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 Salt Lake or Provo, yet have maintained affordable housing.

Recommendations

- Utah 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 Utah legislature should 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 Sutherland Institute 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 sutherlandinstitute.org to download the complete report. Numerous data files and other background information are available at americandreamcoalition.org.