“Smart Growth” Makes Housing Unaffordable

Thanks to a variety of land-use restrictions, California suffers from the least affordable housing in the nation. California’s land-use planning system forces homebuyers to pay penalties ranging from $70,000 per median-value home in Bakersfield to $850,000 per home in the San Francisco metropolitan area.

These numbers are proof of the old song, “if you ain’t got the dough re mi,” you better not try to live in California. Yet many newcomers and young people will be surprised to learn that California cities, even San Francisco, were completely affordable as recently as 1970. It is only use of growth-management techniques that California pioneered in the 1970s, including urban-growth boundaries, greenbelts, and annual limits on building permits, that made California housing unaffordable.

Planning advocates argue that growth boundaries, greenbelts, and other restrictions are needed to preserve livability. But any benefits of these rules are dwarfed by the $136 billion annual cost that planning-induced housing shortages have imposed on California homebuyers.

The benefits of protecting open space are particularly questionable. The 2000 census found that nearly 95 percent of Californians live in cities and towns that occupy just 5 percent of its land. Many San Francisco Bay Area counties have permanently protected more acres as open space than they have made available for urban development. When such actions make it impossible for middle-class families, much less low-income families, to afford their own homes, they represent a sad distortion of social priorities.

Moreover, as happened in the 1980s, California’s fast-rising home prices have attracted speculators who have created huge bubbles in the state’s housing markets. The chart on the next page shows that California’s prices have careened wildly up and down and are poised for another gigantic fall.

The deflation of the current bubble is likely to be more severe than the 1990 bubble because prices today are even more out of line from fundamentals than they were then. This decline will force many families into foreclosure when they find that the amount they still owe on their mortgages exceeds the value of their homes.

The impacts of high housing prices reverberate throughout California’s economy.

- Economic growth is slowed as employers look elsewhere to locate offices and factories;
- Prices for food and other consumer goods are increased as retailers must pay $1 million per acre or more for store locations;
- Far from reducing driving as planners desire, high prices force many commuters to live far from work in communities they can afford;
- Ironically, an obsessive focus on protecting “farmlands”—in fact, mostly marginal pasturelands—near coastal cities forces people to move inland and more rapidly develop the highly productive croplands in the not-yet-so-unaffordable Central Valley.

The greatest enthusiasm for growth-management planning comes from the San Francisco Bay Area, Davis, and other cities that consider themselves “progressive.” But 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 really reflect California’s true attitudes?

Homeownership is more than just a dream, it is a vital part of America’s economic mobility. Most small businesses get their original financing from a loan secured by the business owner’s home. Children in low-income families who own their own homes do better on educational tests than those who live in rental housing. Barriers to homeownership reduce this mobility and help keep low-income people poor.

Predictably, planners’ solutions to the housing affordability problem often makes the problem worse. San Diego charged homebuilders a “housing impact fee” to raise money to subsidize “affordable housing.” After fifteen years, this fee added only 6,700 units of such housing to a city with 470,000 homes. Meanwhile, the impact fee increased the cost of housing for everyone else.

Another oft-proposed remedy, inclusionary zoning, has similar problems. Homebuilders who are required to provide some units of below-market housing simply pass the cost onto buyers of their remaining homes. Existing homeowners, seeing that new homes suddenly cost more, raise the price of their homes when they sell. The result: a few people benefit and everyone else pays more.

The solution to California’s housing affordability crisis is not a few units of affordable housing but widespread land-use deregulation that will make housing more affordable for everyone.

Key Findings and Recommendations

Findings

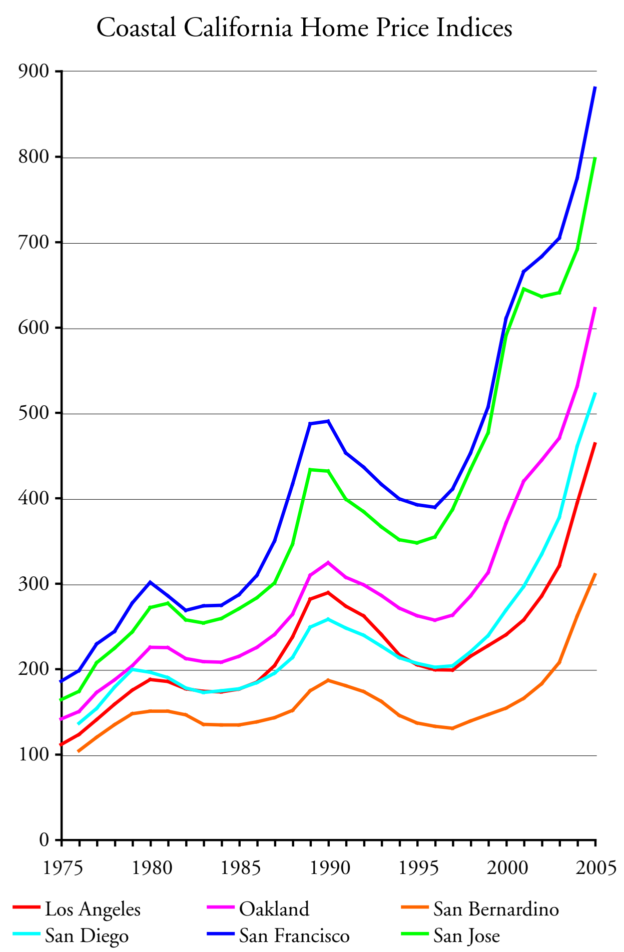
- Housing shortages caused by restrictive land-use regulation imposed penalties on homebuyers totaling more than $275 billion nationally in 2005, nearly half of which is in California alone.
  The national figure is four times the cost of urban congestion as calculated by the Texas Transportation Institute's latest urban mobility report.
- In 2005, California homebuyers paid penalties of $70,000 to $230,000 per median-value home in the Central Valley, $300,000 to $400,000 in Southern California, and $400,000 to $850,000 per home in the San Francisco Bay Area.
  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*, 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 $70,000 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 the United States, and nearly 95 percent of California, 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: Austin, Atlanta, and Raleigh are growing faster than California cities, yet have maintained affordable housing.

Recommendations

- California 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 California legislature should revise or repeal state planning laws, possibly by replacing zoning with "private neighborhoods" as described in the book of that title by Dr. Robert Nelson.
- 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 Infomation

This briefing paper summarizes *The Planning Penalty: How Smart Growth Makes Housing Unaffordable*. This policy report was published by the Independent Institute in cooperation with the American Dream Coalition. Go to independent.org to download the complete report and to americandreamcoalition.org to download numerous data files and other background information.



Research shows that restrictive land-use rules make housing prices more volatile. California's housing prices follow a boom-bust cycle and are poised for another bust. The numbers in the chart correspond to median-home values in thousands of 2005 dollars.